African Economic Outlook

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AFRICAN DEVELOPMENT BANK

African Economic Outlook

AFRICAN DEVELOPMENT BANK
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FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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PERSPECTIVES ÉCONOMIQUES EN AFRIQUE

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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.

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By the end of 2002, the African Development Bank Group cumulatively approved 2 643 loans and grants for commitments amounting to about $42 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.

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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.

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African Economic Outlook

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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 and the World Bank Economic and Prospects Group. 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 collaborative work of the African Development Bank and the OECD Development Centre continued in 2002 resulting in the publication of this second edition of the *African Economic Outlook* (AEO). The publication aims to provide policy makers, private sector operators, and researchers with an objective analysis of economic and social developments on the African continent. Using, as in the last edition, a unified methodology applied to all of the twenty-two countries covered in this year's volume, the *Outlook* further provides an indispensable guide to the economic prospects of the continent. In this manner, it seeks to promote a deeper understanding of the challenges and opportunities facing African economies.

This year's edition of the *Outlook* takes the same dispassionate look at African economies, examines the progress that has been made and identifies the problems that continue to hinder rapid development. Among the major conclusions of the report is that Africa's economic performance, while showing considerable variation among countries, continues on the trend path observed in the last five years. While the prospects for 2003 are better than that of 2002, they are, however, unlikely to result in a sharp rise in the region's average growth rate.

This outcome is explained by factors specific to African economies as well as by developments in the external environment. On the domestic front, civil wars and unrest in some key countries, slow progress in improving governance systems, and drought in Eastern and Southern Africa have affected the overall rate of growth of the African economy. Externally, the sluggish recovery in the global economy and its adverse impact on the prices of major commodities has weakened Africa's economic growth in 2002. In the area of particular concern for this year's *Outlook* – the progress and prospects for privatization – it is quite evident that while significant progress has been made, more effort will need to be exerted to make a success of this endeavour. Overall, it is, nonetheless, encouraging to note that the economies of countries that are at the forefront of governance and economic reforms continue to do remarkably well.

In the future, African countries should continue with their reform efforts in order to lay the economic, institutional, and social groundwork necessary for rapid economic growth. Africa's development partners would also need to continue to support such efforts – through increased aid flows, debt reduction and improved market access – in the context of the pledges made at Monterrey, Kananaskis, and Johannesburg, and within the new partnership framework proposed by NEPAD. We are optimistic that an enhanced partnership between African countries and donor countries will in time indeed lead to an acceleration of the growth of African economies, improving the prospects for making headway towards the Millennium Development Goals.

It is our hope that the new edition of the African Economic Outlook will provide useful inputs into the national, regional and international policy discussions and debates on Africa's economic performance and prospects. The first edition has begun to play such a role in important forums in Africa and Europe. It was, for example, an essential instrument in forging a public-private partnership in Mozambique. We are convinced that the second edition will continue to reach important and influential audiences. We therefore warmly commend this volume to our readership across the world.

Jorge Braga de Macedo		Omar Kabbaj
President		President
OECD Development Centre	March 2003	African Development Bank
Paris		Abidjan

Part One

Overview

Overview

Introduction

This 2002/2003 edition of the African Economic Outlook (AEO) provides an assessment of the recent performance of 22 African economies, and of their prospects for 2003. The framework is similar to the 2001/2002 edition: the report is principally based on country chapters, in which we examine, for each of the countries covered, macroeconomic performances, macroeconomic policies, structural issues and the social and political context. Each country is subject to the same survey process, which provides the basis for well-informed comparative analysis, as exemplified in this overview chapter. Some adaptations to the initial framework of the 2001/2002 Report have been nevertheless introduced.

First, we have included a thematic focus in the report framework, which this year is the privatisation process in African economies. Therefore, in the "structural issues" section of country chapters, we provide fresh information and analysis on privatisation programmes implemented so far in the countries under review. In doing so, we increase the value added of the report, by taking advantage of the country survey process to improve the available knowledge base on a strategic and yet under-researched aspect of African development policies.

Second, we have improved the coverage of two regions: Northern Africa, where we have added Algeria and Tunisia to Egypt and Morocco, and Southern Africa, where we have added Zambia (which replaces Namibia) to Botswana, Mozambique, South Africa and Zimbabwe. Our coverage of Western Africa (Burkina Faso, Côte d'Ivoire, Ghana, Mali, Nigeria and Senegal) is the same as in the AEO 2001/2002 report. This is also the case for Eastern Africa (Ethiopia, Kenya, Mauritius, Tanzania and Uganda). However, this year, our coverage of Central Africa is reduced to Cameroon and Gabon. This gap will be filled as much as possible in the next reports.

In this overview, we first recall the principal evolutions in the international environment of Africa, characterised by a hesitant recovery in the OECD area and a mixed evolution of commodity prices, but also by a modest recovery of Official Development Assistance granted by OECD countries to Africa. We then summarise the principal macroeconomic evolutions of African economies, and their outlook for 2003. 2002 was characterised by a slowdown in economic growth with, as usual, a wide variance of past performances and prospects of individual African countries. In 2003, Africa should, on average, experience only a modest recovery. Then we discuss several aspects of the external constraint faced by African economies, which affect their growth prospect in the medium term. This leads us in particular to discuss competitiveness issues and the moderate diversification progress observed so far in Africa, and to document debt relief obtained recently through the HIPC initiative. The next section extends the analysis of structural issues to privatisation, which is the principal structural economic policy analysed in country chapters of this Report. We then turn to the challenge of poverty reduction through a discussion of the capacity of African countries to meet the Millennium Development Goals by 2015. Finally, we document some of the principal evolutions observed in Africa concerning governance, which conditions to a large extent achievements in poverty reduction.

International Environment

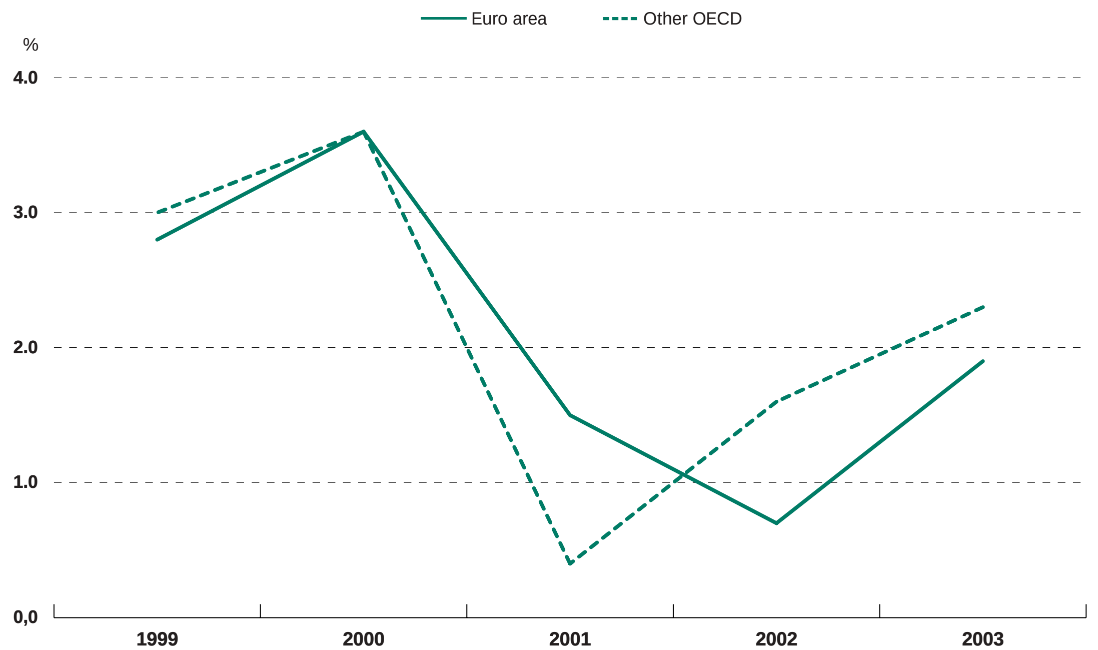
As a consequence of the downturn in the business cycle, which was expected but has been magnified by the burst of the internet bubble in the financial markets, and by the impact of the September 11 terrorist attack, economic growth in the OECD area declined sharply in 2001. Some recovery was observed at the beginning of 2002, particularly in the United States, but it was short-lived, given the further deterioration of financial markets. In a context of still fragile financial markets, a fast growth recovery is not expected for 2003 (Figure 1).

World trade data show a similar picture. Data from the IMF *World Economic Outlook* suggest a slight recovery in world trade in 2002, which fell by 0.1 per cent in 2001, reflecting a sharp deceleration in world real GDP to 2.2 per cent, down from 4.7 per cent in 2000. Global demand has since recovered, fuelled by growth recovery in the US, developing Asia and the Middle East. As a result, the volume of world exports increased by 1.2 per cent in 2002.

The business cycle in the euro area is the most important for Africa, insofar as it is the principal market for African non-traditional exports, although in a few African countries, such as Mauritius, the direction of exports has started to shift to the US market, thanks to the AGOA (African Growth and Opportunity Act). European economies are recovering more slowly than the US economy, an evolution which is interpreted by the OECD Economics Department as the result of structural weaknesses in some of the principal European economies, rather than a cyclical divergence. This suggests that, whatever the speed of the next cyclical upturn, growth in the euro area will be minimal next year. According to OECD estimates, average real economic growth in the euro area was only 0.7 per cent in 2002 (against 1.6 per cent for the non-euro area), and is projected to reach only 1.9 per cent in 2003 (2.3 per cent in the non-euro area). This means that prospects for non-traditional exports from Africa are rather bleak in 2003, although they should be somewhat better than in 2002.

As usual, however, these evolutions have only a marginal impact on the African economies, as compared with other regions. Only a few African countries, which produce and export manufactured goods, and services such as tourism, are directly affected by changes in real domestic demand from OECD countries. The rest depend much more on the trends and cycles in the primary commodity markets, whose evolution is not mechanically linked to OECD growth, and is not always pro-cyclical.

Figure 1 - Growth of Real Domestic Demand in Euro Area and Other OECD Countries (Yearly Data 1999-2001, Estimation 2002, Projections 2003)



Source: *OECD Economic Outlook*, December 2002.

The overall trend of commodity prices is unfavourable to Africa, with significant adverse consequences. Declining commodity prices resulting in deteriorations in the terms of trade have had serious impacts on the development of African countries. Deterioration in the terms of trade is formally equivalent to a transfer of wealth, which reduces real incomes directly. Also, deterioration in the terms of trade and fluctuations in export earnings create an unstable macroeconomic environment which makes it difficult for the private sector to invest with confidence and for the government to plan its expenditure when the tax base is heavily dependent on trade. Falling commodity prices also have large negative effects on Africa's external indebtedness directly through the transfer of wealth effect and through increasing the domestic currency equivalents of such debts, as well as indirectly through increasing debt service ratios. An increase in debt service ratios tends to further impose a downward pressure on commodity prices when debtor countries attempt to export more of the same commodities for meeting debt service obligations without having to cut back imports.

Recently, evolutions in the commodity markets have been rather diverse but, overall, prices were mostly on the decline, consistently with the trough in the business cycle in the OECD area. For the sake of simplicity, we report below the price behaviour of the commodities that are exported by a significant number of African countries.

The most notable exception has been the large upturn in the price of **cocoa**, which has more than doubled since July 2001 (Figure 2). This increase, linked to supply shortfalls due to very low prices in previous years, has been much larger and faster than expected a year ago. According to World Bank projections[1], the cocoa price is due to stabilise next year, and decline again in 2004. However, if Côte d'Ivoire's crisis continues, price increases could continue next year, since this country is the principal supplier in the international cocoa market. To be sure, Côte d'Ivoire will not reap much benefit from such a crisis-induced price hike, but other African countries will, particularly Ghana and Cameroon.

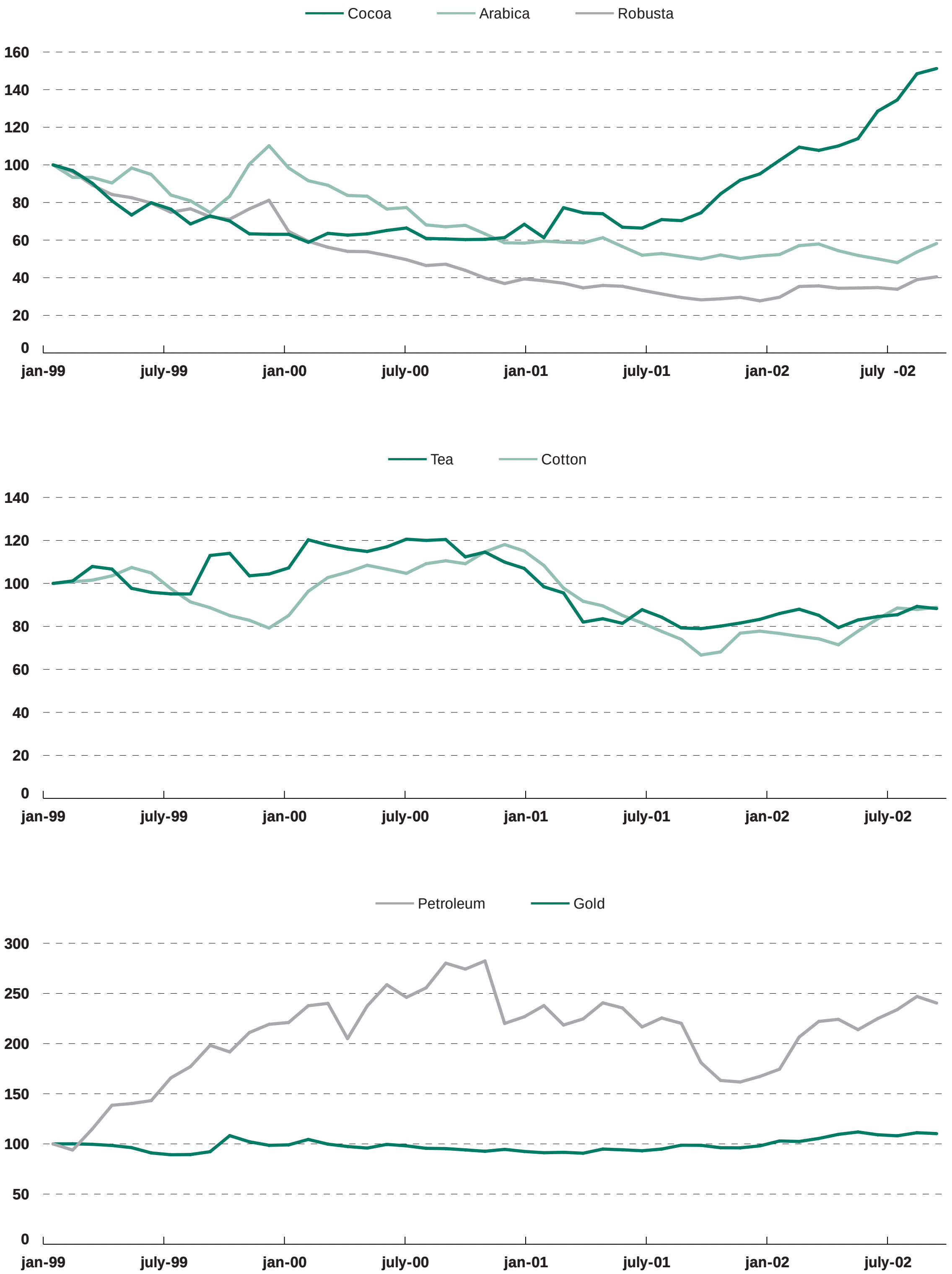
There has been a slight improvement in the Robusta **coffee** market from January 2002, which is expected to continue in 2003. This evolution has been favourable to several African producers, particularly in Western Africa, such as Cameroon and Côte d'Ivoire. Price levels are however still very low. Moreover, the upturn in the price of Arabica coffee, which is exported by Eastern African countries, was not observed until August 2002. Some Eastern African countries have also been affected by a continuing price decline in the **tea** market in 2002, as compared to 2001, despite a slight improvement towards the end of the year. The Arabica and tea market prices are expected to stabilise in 2003.

The **cotton** market has experienced a significant decline in recent years, with prices in 2002 reaching less than half their 1995 level. This market is heavily influenced by the production of the two main world suppliers, the United States and China, where producers enjoy subsidies. Much criticism has recently been raised against the US decision to subsidise its cotton industry. This is thought to exert significant downward pressure on the world price of cotton, a major export commodity for Mali, Burkina Faso, Côte d'Ivoire, Sudan and Egypt. Low cotton crops in the United States due to adverse climatic conditions led, however, to price increases from May 2002. On average, prices were still lower in 2002 than in 2001, due to the sharp decline observed previously, but they should grow back to their 2001 level in 2003.

The **oil** market, which had experienced a sharp price decline after the September 11 events, dropping from above $26 per barrel to below $18 per barrel, recovered significantly in 2002, due first to restrictions in OPEC quotas, and second to price increase expectations associated with the strike in Venezuela, the political situation in the Middle East and the risk of war against Iraq. Some of these risks have already been incorporated in market prices, which were significantly

1. *Global Economic Prospects 2003*, World Bank, December 2002.

Figure 2 - Evolution of Prices of Main Raw Materials Exported by Africa
(Index Base of 100 in January 1999)



Source: World Bank.

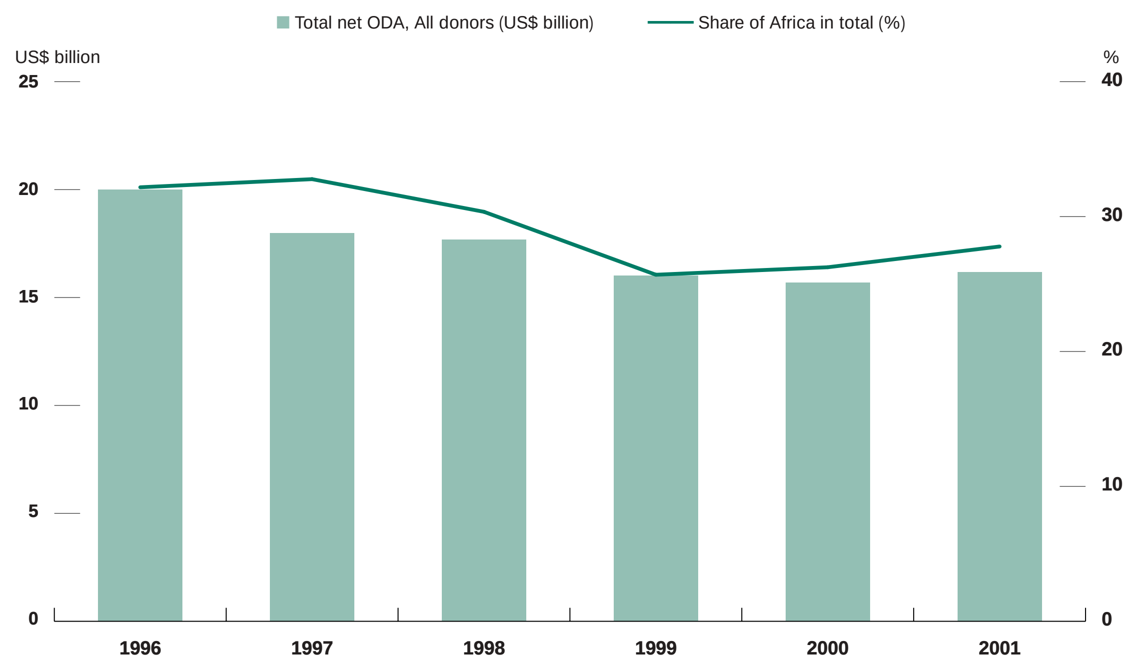
above $30 per barrel by the end of 2002. On average, oil prices stabilised in 2002, compared with 2001, and according to OECD projections they should be moderately on the rise again in 2003, although at levels which should not be above the 2000 high.

The **gold** price improved significantly after September 11 and, given the mounting financial uncertainties in 2002, it continued increasing to reach levels above $320 per ounce, while it had been below $300 per ounce for a long time. Given market fundamentals and possible further sales by central banks, the World Bank forecast a downturn in 2003 to an average level close to $300 per ounce, and further declines thereafter. This may affect not only the terms of trade of African gold exporters but also their production volume, since in several countries, such as Burkina Faso and Mali, not all extraction is profitable at prices below $300 per ounce.

Amidst this gloomy picture, one aspect pertaining to the external environment facing Africa has recently improved: after several years of decline, Official Development Assistance (ODA) to Africa has stabilised, and even reversed to the upside in 2001. Nonetheless, this is a timid increase, since total net ODA flows to Africa in 2001 are still below their levels in 1996. ODA flows to Africa reached only $16.2 billion in 2001, compared to $20 billion in 1996 (Figure 3). However, there are indications that the upturn observed in 2001 is expected to continue in 2002[2] and beyond.

The guarded optimism regarding the possible increase of ODA flows to Africa is based on two principal reasons. First and foremost, after more than a decade of decline in ODA, major donors have pledged, on the occasion of the Monterrey conference on development finance held in March 2002, significant increase in their ODA efforts till 2006. The European Union Members have committed to increase their total ODA by 2006 from 0.33 per cent to 0.39 per cent of their gross national income. This implies an ODA volume increase of around $7 billion by 2006. Other donors have followed suit, particularly

Figure 3 - Net ODA Flows to Africa



Source: Authors' computations with OECD Development Assistance Committee data.

2. 2001 figures are the latest available OECD/DAC estimates as of December 2002.

the United States, which have pledged an ODA budget increase of $5 billion by 2006. Second, while the amount of aid allocated to Africa as a proportion of total net ODA flows had declined, from a ratio of more than 32 per cent in 1996 to less than 26 per cent in 1999, this tendency has been reversed since then: in 2001, Africa received close to 28 per cent of total net ODA flows. This reflects changes in aid allocation policies by some major donors, notably the United Kingdom, which have increased their aid effort towards Africa in recent years. In the context of the NEPAD initiative, which was backed by the G8 countries at the Kananaskis Summit in June 2002, donors' willingness to assist African countries is likely to continue. This is illustrated, for instance, by the creation of the Canada Fund for Africa, announced at the Kananaskis Summit.

Assuming that the momentum created by the launch of the NEPAD in July 2001 will continue and will lead to concrete steps towards its implementation, some significant increases of the aid budgets provided to Africa, by several billions of dollars, can reasonably be expected in the years to come. However, not all African countries will benefit from this change: this new assistance provided by the donor community will be increasingly selective, and will depend in particular on adherence to good governance practices, which form the core principle of the NEPAD.

Macroeconomic Performances in Africa

The slowdown of the world economy had a negative impact on economic activity in Africa in 2001, and even more so in 2002. In 2002, African growth has been on average, for the first time since 1995, below 3 per cent (Table 1). Although the world environment has played a role in this recent outcome, most of the economic challenges that the African continent faces remain country specific, and are more related to internal developments in the domains of economic and political governance than to external factors. Based on our detailed analysis of the 22 countries covered in the second part of this Report, our expectation for the continent in 2003 is a sluggish economic recovery, with an average growth rate of 3.3 per cent.

In the Central African sub-region, oil economies performed reasonably well, in response to the positive orientation of the oil market in 2002. The only exception is Gabon, where the rapid depletion of oil resources implies a decline in production, which is expected to continue in the coming years in absence of new discoveries. This will imply a negative growth in 2003, which will reduce the sub-regional growth performance. The main sub-regional change concerned the Democratic Republic of Congo (DRC), where a normalisation of the political situation is taking hold, marked by the signing of a peace agreement in December 2002. This normalisation has positive consequences on economic activity in the DRC, with growth turning positive in 2002 after six years of economic decline.

The rather sharp average decline of economic growth in the Eastern African sub-region is due, in a large part, to one single country specific event: the political crisis in Madagascar, where growth has been around –10 per cent in 2002. Mauritius, which had invested significantly in subcontracting labour-intensive manufacturing activities in Madagascar, has been partly affected by the Malagasy crisis. This crisis is now resolved, with positive consequences for the regional outlook in 2003. The major Eastern African economies of Kenya, Tanzania and Uganda, maintained rather stable economic performances in 2002. Ethiopia slowed down in 2002, partly due to the decline of coffee prices and output and the negative impact of drought on food crops in the main season. All in all, much better performances are expected in 2003 for Eastern Africa as a whole, which is expected to be the fastest growing sub-region in Africa in 2003.

Northern Africa has been the most affected sub-region after the September 11 shock. In particular, the tourism industry in Egypt, Morocco and Tunisia faced a decline in the number of tourist arrivals. Egypt was also affected by the consequences of the growing political and security concerns in the Middle East. Despite facing huge structural issues, the performance of the

Algerian economy improved slightly in 2002. This improvement is expected to continue in 2003, given the upward trend in the oil prices. For the Northern sub-region as a whole a slight improvement in economic performance is thus expected for 2003, although security uncertainties still surround the sub-regional outlook, in view of the complexity of the political situation in the Middle East.

In the Southern African sub-region, growth performances improved somewhat in 2002, thanks to enhanced business conditions in South Africa, which reaped in 2002 the competitiveness gains emanating from the depreciation of the Rand during the course of 2001. Another positive factor observed in 2002 has been an improvement in the level of investment linked to new public investment projects, which should have positive consequences on the country's outlook. Given the overwhelming weight of South Africa in the sub-region (77 per cent of the sub-regional GDP), the rather positive outlook for South Africa explains most of the sub-regional trend. This, however, tends to mask the vastly different performances and outlooks of the other countries in the sub-region. On the one hand, the economic crisis in Zimbabwe continues, and is not expected to end soon, which implied a fourth year of negative growth for 2002, with similarly gloomy prospects for 2003. With the "negative neighbourhood effect" becoming evident in that area, the land crisis in Zimbabwe may have negative consequences for Southern Africa as a whole, as it may affect confidence of investors in the sub-region. On the other hand, Mozambique is still growing fast thanks to its mega-projects. Similarly, after the end of the civil war, Angola has started recovering, with very high growth in 2002 (17 per cent), which is expected to slow down to normal levels in 2003. Finally, food crises emerged in several countries in the sub-region, owing to a severe drought, whose effects are expected to continue for some time. Overall, in 2003 the sub-region is expected to register growth rates close to its modest 3 per cent yearly average observed since 1995.

Western Africa has experienced a significant economic downturn, which is principally due to specific events in two countries, namely, Côte d'Ivoire and Nigeria. The political crisis in Côte d'Ivoire has brought to an end the slow recovery that was expected in 2002. Economic growth in Côte d'Ivoire was close to zero in 2002, and it will plunge deep into negative in 2003, even if the political crisis recedes. For one thing, agricultural crops in the autumn have already been significantly disrupted, particularly in the northern part of the country, and this will have an adverse impact on growth in 2003. Moreover, being already affected by the December 1999 *coup d'état* and its aftermath, private investors' confidence will be shattered by the September 2002 events, leading to large deterioration in investment undertakings and to an upsurge in capital flight. The crisis in Côte d'Ivoire is expected to adversely affect the northern neighbours, Mali and Burkina Faso, in 2003, as Côte d'Ivoire has been their main trading partner in the sub-region, as well as their principal access to international trade routes, through the port of Abidjan. Nigeria had negative growth in 2002, due to falling oil incomes, as a result of a reduction in production in conformity to its OPEC quotas. In this context, and given the fragility of Nigerian public finances, the country faced renewed financial difficulties, which led the Government to declare a moratorium on

Table 1 - Average Growth Rates of African Regions

Region	Average 1995-2000	2001	2002(e)	2003(p)
Central	2.7	4.7	5.7	4.7
East	4.3	4.7	2.6	5.3
North	4.2	3.8	2.9	3.3
South	3.0	2.4	3.4	2.9
West	3.6	3.0	1.1	2.4
Total	3.6	3.3	2.9	3.3

Note: These aggregates exclude Liberia, Libya and Somalia.
(e) = estimate, (p) = projection.
Source: Authors' estimates.

its debt obligations in August 2002. The fiscal federalism structure of the country is one specific reason that may explain this difficulty faced by Nigeria in keeping the budget under control.

On macroeconomic stability, progress can be noted in monetary management and inflation control (Table 2). This is particularly the case in Central (excluding DRC[3]), Eastern and Northern Africa, although in Eastern Africa, some moderate inflationary pressure, linked to food price increases, is projected for 2003.

In the Southern African sub-region, a rather high rate of inflation persists. In 2002, inflation rose again in South Africa, partly because of imported inflation related to the depreciation of the Rand, and despite the inflation-targeting monetary policy implemented by the South African Reserve Bank. This inflation is transmitted to several neighbours of South Africa, with which it has close ties. Some inflationary pressure has also been due to the consequences of the drought in food prices. The highest inflation rates observed in the region are however country specific: Zimbabwe has now a triple-digit inflation, due both to its food crisis and to the monetary financing of its huge fiscal deficit; Angola's inflation, which used to be triple-digit as well, is now in the process of receding, but only gradually.

In the Western African sub-region, double-digit inflation still persists in Ghana and Nigeria, although some success in checking inflation has been achieved and is expected to continue in 2003. On the other hand, inflation is under control in the Franc zone countries, despite some likely pressure on food and imported good prices in connection with Côte d'Ivoire's crisis.

Table 2 - Average CPI Inflation Rates of African Regions

Region	2000	2001	2002(e)	2003(p)
Central	2.8	3.7	3.5	2.4
East	5.8	2.6	1.5	4.3
North	2.8	4.2	3.1	3.6
South	22.0	18.3	22.8	18.6
West	6.7	14.0	10.0	8.6

Note: These aggregates exclude DRC, Eritrea, Liberia, Libya, Sierra Leone and Somalia. They are based on a chain index, weighted by GDPs. 2002 estimates and 2003 projections are based on information on the 22 AEO countries only.
Source: Authors' estimates.

On average, fiscal deficits are now at moderate levels in all African regions, with even a fiscal surplus in Central Africa, thanks to the oil incomes accruing to Congo, Cameroon, Equatorial Guinea and Gabon. However, there remain wide variations in country achievements with respect to fiscal discipline, and a large number of African countries still have very high fiscal deficits, particularly in Central, Southern and Western Africa (Figure 4).

Moreover, on average, the fiscal situation does not seem to have improved much in recent years. This is evident from Table 3, which is based on the forecasting exercise implemented for the 22 countries covered in the second part of this report[4]. Again, the picture provided by these aggregate numbers masks vast differences among countries.

Central Africa has the widest variance of fiscal balance ratios, with a combination of oil exporting countries, which enjoy fiscal surpluses, and conflict countries (particularly Burundi and DRC), which face some of the biggest deficits. In Eastern Africa, fiscal deficits are reasonably well under control, with the

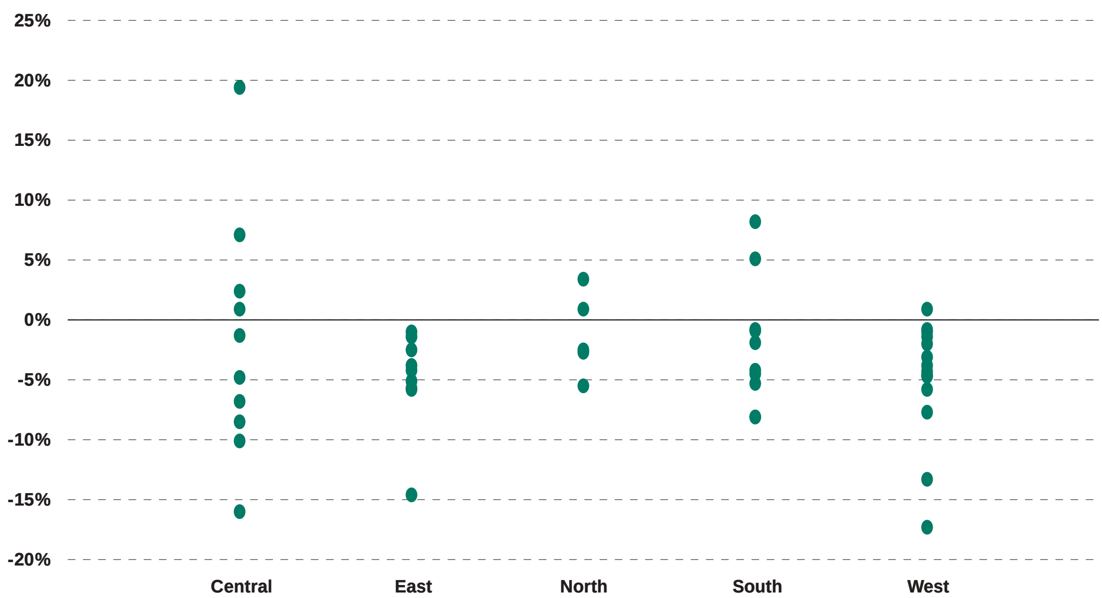
3. In Central Africa, DRC is an outlier, since this country has experienced very high inflation for a long time. Data on recent inflation is unavailable.

4. In the Southern region, the rather big deficit increase in 2003 is related to an excessive weight given to Zimbabwe, whose GDP is measured in this calculation at the official exchange rate, which is vastly overvalued.

exception of the Seychelles. The same is true in Northern Africa, with the oil exporting country, Algeria, enjoying a significant surplus, while deficits are at manageable levels in other countries. In Southern Africa, Botswana and the oil exporting Angola register surpluses, while Zambia and Zimbabwe have very large deficits, close to 8 per cent of GDP in 2001, and growing to close to 9 per cent in 2002 and 2003. In Zambia, however, the deficit partly reflects a very large interest bill on domestic government debt, which should decrease rapidly assuming that interest rates recede to normal levels. Moreover, government revenue prospects could rapidly become better, given the pledges of renewed aid by the donors. In Western Africa, apart from conflict countries (particularly Sierra Leone), the largest deficits are observed for Burkina Faso, with deficits close to 6 per cent of GDP. Nigeria's fiscal situation is also a matter of concern. This is the only oil exporting country in Africa facing a fiscal deficit (close to 3 per cent of GDP in 2001), despite the rather high oil price enjoyed by the country since 2000. Its deficit increased again in 2002, despite a slight improvement in oil prices; the deficit is expected to recede in 2003, based on renewed efforts to constrain expansion in current expenditures, better oil prices, as well as improved tax collection.

The current account balances of African countries also exhibit a very high variance among countries (Figure 5). In Central Africa, a majority of countries experience manageable current account deficit levels of between 1 and 6 per cent of GDP. The main outliers

Figure 4 - Fiscal Balance/GDP Ratio of African Countries in 2001



Note: This figure excludes Eritrea, Liberia, Libya, Somalia and Sudan.
Source: Authors' estimates.

Table 3 - Average Fiscal Balance/GDP Ratios (percentage)

Region	2000	2001	2002(e)	2003(p)
Central	5.1	4.0	5.8	4.1
East	-3.5	-3.0	-4.3	-3.5
North	-0.6	-2.4	-1.7	-1.0
South	-2.9	-2.1	-2.7	-4.0
West	0.2	-2.8	-2.6	0.2

Note: This table is based only on the 22 AEO countries.
Source: Authors' estimates.

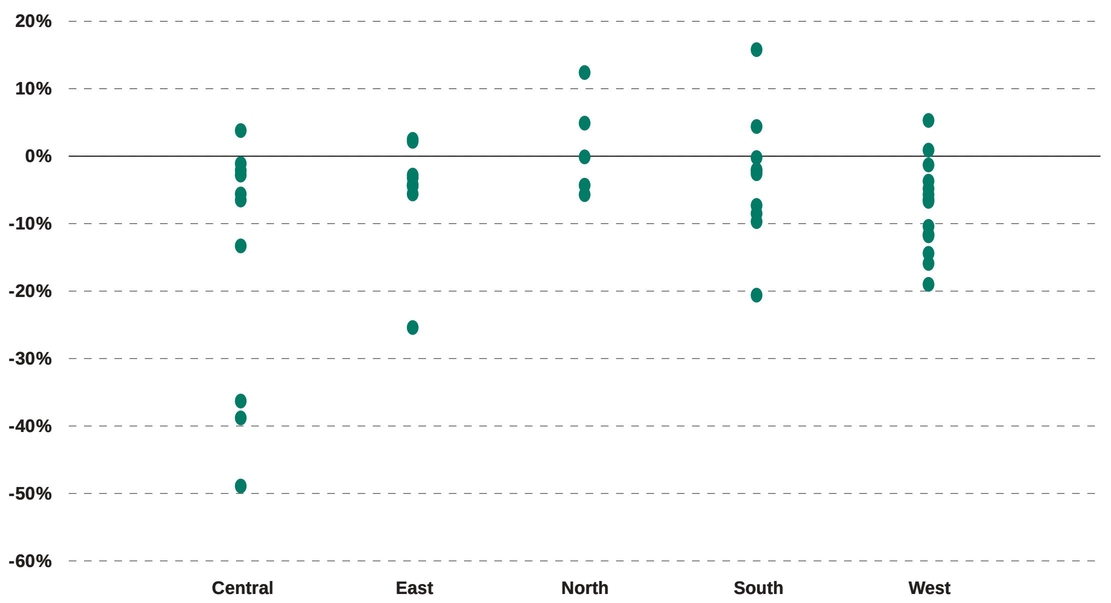
are Chad, Equatorial Guinea and Sao Tomé and Principe, which registered in 2001 deficits above 30 per cent of GDP. These countries, however, experienced large expenditures related to new developments in the oil sector. In Eastern Africa, current deficits are also kept under control, with the exception of the Seychelles. The same is true in Northern Africa, where Algeria has a large current account surplus. In Southern Africa, Zambia has a very large deficit of about 20 per cent of GDP, and three other countries (Mozambique, Lesotho and Namibia) have also large current account deficits. In Western Africa, about half of the countries have very large deficits, including a number of Franc zone countries (Burkina Faso, Mali, Benin, Togo). Nigeria has a significant current account surplus, thanks to its oil exports.

Finally, in order to assess the medium-term growth potential of African economies, it is useful to look at their investment performances. All past and recent experiences suggest that, given the overall tendencies of the terms of trade and of productivity, significant investments are a prerequisite to economic growth[5].

On average, investment ratios of African countries are around 16-22 per cent of GDP (Table 4), which is certainly not enough to sustain the 7.4 per cent growth performances that are necessary to achieve the goal of halving poverty by 2015[6]. Except in Western Africa (particularly Nigeria), this investment is mainly private.

However, there are large variations among African country performances (Figure 6). In Central Africa, the variance of investment ratios is extremely high, due to the relatively big investment in new oil-related projects in Chad, Equatorial Guinea, São Tomé and Principe. The other oil countries (Gabon and Congo) exhibit also high investment ratios, while the conflict countries (DRC and Burundi) are at the low end of the distribution. In Eastern Africa, there is relatively little

Figure 5 - Current Balance/GDP Ratios of African Countries in 2001



Note: This figure excludes Eritrea, Liberia, Libya, Somalia and Sudan.
Source: Authors' estimates.

5. For illustration on 1990s data, see J.C. Berthélemy *et al.* (2001), *Emerging Africa*, OECD Development Centre Study, OECD, Paris.

6. See below the section on MDGs.

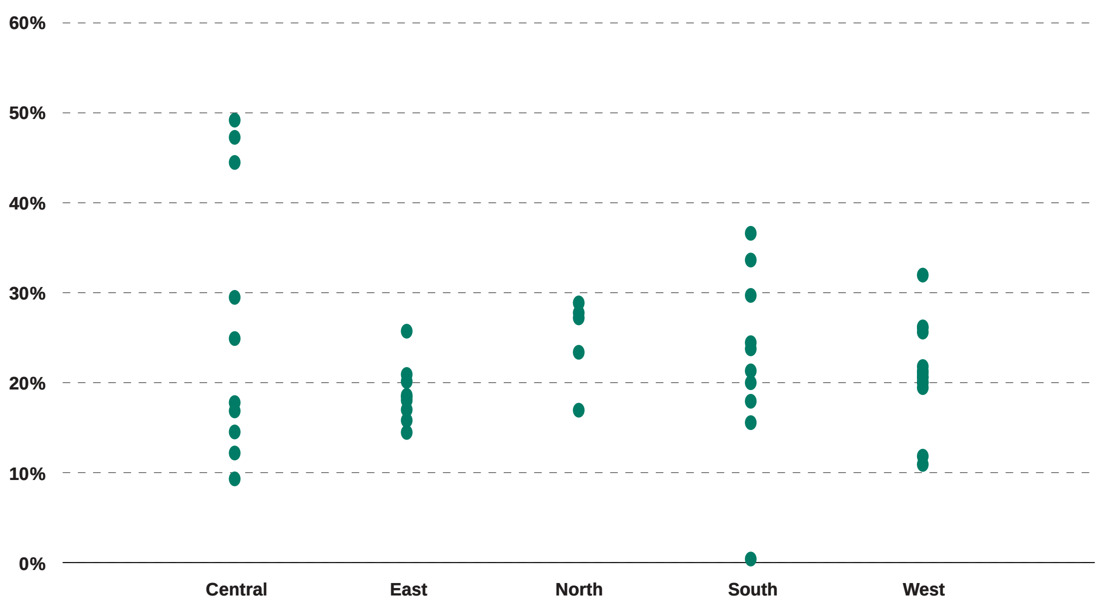
variance, and all principal countries have investment ratios at or below the 20 per cent level. The same low variance is observed in Northern Africa, but with much better investment performances, typically above 23 per cent, in Algeria, Morocco and Tunisia (where it reaches 26 per cent). The only relative outlier in the region is Egypt, with a low investment ratio close to 17 per cent. In Southern Africa, on the contrary, there is a huge variance of performances, from close to zero investment ratio in Zimbabwe, due to the economic crisis, to 37 per cent in Mozambique, where the mega projects attract large foreign investments. South Africa is on the low end, with an investment rate below 16 per cent, which contributes to explaining the sluggish growth prospects of the country, despite improvements in 2002. Finally, in Western Africa, Côte d'Ivoire and Niger have low investment ratios and, for the former, this weakness will persist due to the current political crisis. The other principal economies of the region, including Nigeria, invest some 20 per cent of their GDP. Burkina Faso is a relative exception, where the investment rate was at 26 per cent in 2001, thanks to foreign aid-funded public investment, but its investment performances are forecast to decline to 23 per cent of GDP by 2003.

Table 4 - Average Investment Ratios of African Regions in 2001 (percentage)

Region	Total Investment/GDP	Public Investment/Total Invest
Central	22.3	23.7
East	17.3	34.0
North	18.2	23.5
South	16.7	27.9
West	19.5	49.5
All Africa	**18.1**	**29.4**

Source: Authors' estimates

Figure 6 - Investment/GDP Ratios of African Countries in 2001



Note: This figure excludes Eritrea, Liberia, Libya, Somalia and Sudan.
Source: Authors' estimates.

Recent Structural Change in the External Constraint

External Trade Performance

Whereas exports in developing countries expanded by an above-average 3.8 per cent in 2002, Africa trailed behind, with exports rising by a low 0.1 per cent in volume terms. Although the annual growth rate in exports of Africa was about 4 per cent during the 1996-2002 period, the continent suffered a fall in overall competitiveness with an average decline of about 1.9 per cent during the same period (see statistical Annex). Individual country competitiveness ranged from a decline of 10.2 per cent for Egypt to an increase of about 11 per cent for Mozambique and Burkina Faso. The fall in competitiveness for Egypt reflects an average yearly decline of about 2.6 per cent in exports over the period; while Mozambique registered an average annual increase in exports of about 9.5 per cent. For sub-Saharan African countries as a whole, these competitiveness losses translated into further erosions in Africa's global trade share, down to 2.3 per cent in 2002 from 2.4 per cent in 2001. Issues pertaining to Africa's export performance and international market share include the excessive dependence on primary exports; inadequate competitiveness in traditional exports; the intensified competition in labour-intensive manufacturing industry facing Africa's early diversifiers; and shortage of export capability of low-income countries.

While many developing countries, particularly those in South and South East Asia, have experienced a decrease in the share of primary commodities in total exports, bringing their level of commodity dependence close to that of developed countries, developing African countries continue to depend greatly on primary commodities for their export earnings. Of the 22 countries included in the African Economic Outlook, 13 rely on a single commodity for 30 per cent or more of their total export earnings. These are non-oil commodity exporting countries: Botswana (diamonds), Burkina Faso (cotton), Côte d'Ivoire (cocoa beans), Ghana (cocoa beans), Kenya (tea), Mali (cotton), Mozambique (fisheries), Uganda (coffee beans), Zambia (copper), and Zimbabwe (tobacco). Added to these are the oil-producing countries with the export share of oil sales ranging from 70 to 97 per cent in Algeria, Gabon, and Nigeria. There are now some concerns over the depletion of the natural resource base for some primary exports (such as fisheries and phosphate in Senegal and tropical forests in Cameroon and Gabon), and also, the ageing of some perennial crops (such as cocoa trees in Côte d'Ivoire). This also applies to some oil-producing countries such as Gabon whose export base has been shrinking owing to depleted oil reserves.

Notwithstanding the excessive dependence on the exports of primary goods, African countries have failed to boost their competitive edge in this very field, resulting in large losses in market shares. For instance, it has been estimated that over the 1970-1994 period the region's market shares in cocoa beans fell from 80 per cent to 67 per cent; in coffee from 26 per cent to 15 per cent; in cotton from 30 per cent to 16 per cent; in timber from 13 per cent to 7 per cent; and in iron ore from 12 per cent to 2 per cent[7]. The loss of Africa's markets in cocoa beans, coffee and timber was largely to Asian countries; in iron ore to Latin American countries; and in cotton to Eastern European countries. The decline in market share has been contained in the second half of the 1990s, but the losses incurred in past decades have not been recouped despite the implementation of economic reform programmes.

It has been argued in this regard that the sweeping price-oriented reforms implemented by the majority of African countries concentrated mainly on improving price competition through currency devaluation and demand management policies. But Africa's price competition explains only a small proportion of the changes in its market shares; while non-price factors appear to be of much greater importance in determining the success, or otherwise, of a country in the

7. African Development Report (1995).

international market[8]. Increased attention would, thus, need to be devoted to improving aspects pertaining to non-price competition, particularly in the area of marketing and product sophistication. These include the improvement of packaging; communication and foreign contacts; export-processing services, quality controls; transport and the speed of delivery of products; and the provision of export credit through financial reforms. Improving these non-price aspects will tend to increase the income elasticity of demand for Africa's exports[9].

It is worth noting that some countries in Africa have widened their primary commodity export base in recent years. Gold exports from Mali almost doubled in 2001, as a result of the opening of a new mine. Gold has now replaced cotton lint as the country's main source of export earnings. From being heavily dependent on oil imports, Sudan has now become a net oil exporter. In Mozambique, electricity exports have become a major foreign exchange earner since 1998 and the start-up of the Mozal aluminium smelter in 2000 has also changed the structure of the country's exports. However, barring some specific cases, mostly when countries have begun, or are about, to export crude oil on a large scale (such as Equatorial Guinea and Chad), export earnings for countries that seek to promote the exports of other primary commodities are unlikely to improve in a dramatic fashion. This is so much the case as the markets for primary commodities are already highly competitive, if not saturated. The widening of the export base nonetheless helps to mitigate the impact of single commodity price swings.

Some countries have also gradually shifted the composition of their exports from unprocessed to processed traditional products (such as Côte d'Ivoire and its semi-processed cocoa products, Senegal and its phosphate derivative products, and Cameroon and its processed timber). While there is little evidence over the last decade that prices for processed traditional products were rising faster, or falling less, than those for unprocessed products, the economic argument for processing is not based solely on the prospects of higher prices in the short run. It is, rather, based on the long-term objective of nurturing and developing domestic industries, building up know-how and new comparative advantages, and pushing selected niches of industries towards areas of higher growth potential and technological change.

The only countries in Africa that have convincingly diversified their production and exports away from traditional products include Tunisia, Mauritius, Morocco, Egypt and South Africa. Diversification efforts towards manufactured exports in these countries have initially relied on labour-intensive products, ranging from chemical, basic metals and leather products to motor vehicle manufacturing, textiles and footwear, and electronic goods. These countries, however, would need to make their export sectors more dynamic, in order to maintain a competitive edge for their manufactured products on the world market. According to UNCTAD, the sharp increase in the number of low-skilled workers participating in trade-related activities is an important reason why developing countries may face increasingly saturated markets for their manufactured exports. It is recognised, for instance, that increasing labour costs in Mauritius have eroded the competitiveness of its textile industry over the years. It might be argued in this regard that the boost emanating from the AGOA may well be short-lived, as an increasing number of sub-Saharan African countries take advantage of the initiative. Mauritius, South Africa, but also Kenya, Lesotho, Madagascar, Malawi, have already drawn significant benefits from AGOA.

Early African diversifiers must, however, learn from economic history which shows that successful

8. See Hussain, N. (1998) "Africa's External Sector and Economic Growth: Broad Pointers for Development Assistance", in Kifle, H. *Towards a New Partnership for African Development*, African Development Bank, Abidjan.

9. For the relationship between non-price factors and the income elasticity of demand for imports see McCombie, J.S.L. and A.P. Thirlwall, (1994), *Economic Growth and the Balance of Payments Constraint*, St. Martin's Press, New York.

diversification is not an event, but it is rather a dynamic process where old leading industries would have to hand on the lead to new industries in response to challenges emanating from the domestic and international competitive environments[10]. Economic history also tells us that in the race to climbing the scale of product sophistication, there will always be leading countries, catching-up countries, newcomers, and countries that are left behind — needless to note that the latter are currently mostly African countries which rely excessively on the production and exports of primary goods.

It is thus encouraging to note that Africa's early diversifiers are responding positively to this challenge. For instance, in the face of high domestic labour costs and international competition in textiles, Mauritius is gradually shifting its labour-intensive, low-technology to a relatively more capital-intensive, high-technology production base. The development of new industries (including printing, publishing, jewellery, watches and clocks, sporting goods, etc.) is envisaged to complement existing industries, thereby creating "advantages of conglomeration", particularly in the country's export processing zone. Early diversifiers in Africa including South Africa, Tunisia, Egypt and Morocco would, therefore, need to continue building dynamic export sectors and acquiring new comparative advantages in products and services where world demand is high, in a changing global competitive environment.

For the majority of African countries that still depend excessively on primary exports, the pressing issue is how to initiate an effective diversification process and increase their exports of manufactures, while continuing to exploit the comparative advantage they enjoy in primary commodities. This requires both domestic and international policy initiatives. At the domestic level, large investments are required in trade-creating and trade-facilitating infrastructure, such as telecommunications and transportation, and in trade-related government institutions, such as customs and tax administrations and export promotion and servicing units. At the international level, the recent important new initiatives including the US African Growth and Opportunity Act, and the European Community "Everything but Arms Initiative" for the least developed countries, will need to be sustained and deepened if African countries are to expand their exports, accelerate economic growth, and reduce poverty.

Debt and Debt Relief

The rising magnitude of foreign indebtedness and its implications for the economic survival of developing countries, particularly those in Africa, ultimately led to the launching of the Highly Indebted Poor Country (HIPC) debt relief initiative in 1996. After its review in 1999, the HIPC initiative has started to yield some positive impact on Africa's development management. There is now a stronger link between debt relief and poverty reduction. The freed up resources, accruing from the debt relief initiative, are being used increasingly to support poverty reduction strategies – in the context of the Poverty Reduction Strategy Papers (PRSPs) developed by national governments in consultation with civil society. The initiative will reduce total external debt by two-thirds, and debt as a ratio of GDP will be cut in half, from about 56 per cent to 30 per cent, which is below the average for developing countries.

There have been certain recent developments in Africa with the HIPC debt relief initiative. Ethiopia reached its decision point in November 2001, while Ghana and Sierra Leone attained theirs in February and March 2002 respectively. All three countries are enjoying Paris Club interim assistance. A preliminary document had been considered for Côte d'Ivoire in early 2002 and was expected to reach its decision point by the end of the year. However, in view of the armed conflict experienced by the country since September 2002,

10. This process of climbing the scale of product sophistication is clearly documented in the case of Japan, the second largest economy in the world, where the leading key industries changed from textiles in the 1950s to consumer electronics and shipping in the 1960s; vehicles, machinery, industrial electronic products and chemical products in the 1970s and 1980s; and to biotechnology, computers, telecommunications and cyber-related products in the 1990s and beyond.

Côte d'Ivoire could not reach its decision point, as scheduled, by the end of 2002. Cameroon was expected to finalise its PRSP in the fourth quarter of 2002. Both Côte d'Ivoire and Cameroon have substantial levels of outstanding IBRD debt, which will be financed from IDA debt relief grants and credit sources.

Burkina Faso reached its completion point in April 2002 and it has received unconditional debt relief. However, due to adverse effects on its primary export commodity, cotton, which was affected by white fly pest in 2000/2001, and the decline in prices on the world market of cotton and gold, the country could not achieve a sustainable debt level at the completion point (the debt sustainability analysis being based on the ratio of debt net present value to the average exports for 1999-2001). In such a peculiar instance, the IMF/World Bank designed an additional debt relief package of about $129 million to address these adverse occurrences. Revised debt relief projections have also been carried out for Mali and Ethiopia and their completion point debt relief assistance has been revised upwards. However, such additional topping up is reviewed on a case-by-case basis.

Currently, 22 African countries have attained their decision points out of which five, Mauritania, Mozambique, Tanzania, Burkina Faso and Uganda, have subsequently reached their completion points. Table 5 gives a summary of the 22 decision point countries and the amounts in debt relief due to these countries.

Three of the four completion point countries, which are in the list of this report (Mozambique, Tanzania and Uganda), have received various degrees of assurances of creditor participation in the delivery of debt relief. Uganda has for instance received between 95-96 per cent of creditor participation in the delivery of total debt relief while Mozambique and Tanzania have received between 88-90 per cent. Burkina Faso is yet to receive such assurances.

Table 5 - Debt Relief Assistance *(end-September 2002)*

			Debt Relief *(in $ million)*	
Country	**Decision Point Date**	**Completion Point Date**	**NPV terms***	**Nominal terms**
Benin	Jul. 00		37.5	46.4
Burkina Faso	Jun. 00	Apr. 02	86.7	125.7
Cameroon	Oct. 00		78.6	90.1
Chad	May. 01		36.9	49.4
Ethiopia	Nov. 01		216.8	271.0
Gambia, The	Dec. 00		15.8	19.6
Ghana	Feb. 02		130.9	160.2
Guinea	Dec. 00		75.3	89.1
Guinea Bissau	Dec. 00		50.8	86.0
Madagascar	Dec. 00		59.1	75.2
Malawi	Dec. 00		70.9	98.2
Mali	Sep. 00		68.1	83.9
Mauritania	Feb. 00	Jun. 02	72.8	90.7
Mozambique	Apr. 00	Sep. 01	22.2	29.3
Niger	Dec. 00		37.2	58.4
Rwanda	Dec. 00		75	141.2
São Tome & Principe	Dec. 00		34.2	78.9
Senegal	Jun. 00		56.8	64.2
Sierra Leone	Mar. 02		42.8	98.6
Tanzania	Apr. 00	Nov. 01	124.9	190.8
Uganda	Apr. 97	Jan. 00	59.3	78.7
Zambia	Nov. 00		146.1	177.6
Total			**1598.5**	**2203.2**

* AfDB contributes 20 per cent of this amount.
Source: AfDB staff estimates.

At the HIPC Multilateral Creditors' Meeting and the HIPC Technical Meeting held in October 2002 in Washington and Paris respectively, donors continued to express strong support for the HIPC initiative and raised and discussed some salient issues affecting the programme. Among them were:

— *the HIPC is found to be relevant in reducing debt levels and improving the debt service profile of the participating countries;*
— *the initiative needs to prioritise its goals and narrow its focus;*
— *there is room for improvement in the exercise of analysing debt sustainability through greater transparency and a realism regarding projections and assumptions;*
— *there is need to maintain standards for policy performance of the countries benefiting from debt relief within a reasonable and flexible framework recognising that each country's needs and capabilities are different; and*
— *that the initiative needs to encourage a better balance between development priorities.*

Thus far, the implementation of the HIPC debt relief initiative has achieved some measurable success, however fluctuating prices on world commodity markets is a major factor necessitating upward reviews in debt relief estimates for HIPCs. The fluctuating commodity prices impose further financial burdens on donors as a result of the financial gap they create. Mobilising additional resources to finance debt relief remains the future challenge facing the HIPC debt relief initiative.

Economic Reforms: An Assessment of Privatisation Policies

A growing number of African countries are continuing to implement far reaching economic and structural reforms in order to check and reverse the deterioration in economic and social indicators. The reform programmes have generally combined macroeconomic stabilisation and structural adjustment policies with financial sector reforms, institutional changes and privatisation of public enterprises. These programmes were anchored on economic liberalisation with a view to creating the conditions for stimulating economic growth.

This issue of the Outlook focuses on the question of privatisation, which is one of the important pillars of economic reforms and market reorientation in Africa.

As in the rest of the world, privatisation policies in Africa are aimed at enhancing the efficiency of resource allocation via increased competition; increasing the tax base as firms and transactions multiply; promoting economic diversification as firms seek new opportunities in traditional and new sectors; attracting more investment in infrastructure and utilities; expanding the activities of the export sector; improving the access of the private sector to credits and other forms of finance; and widening ownership of key industries. The case for privatisation could also be based on the need for governments to establish reputation. That is, by undertaking privatisation, governments signal to potential investors the direction of future policies. More predictable policies improve the planning horizon of agents and thereby reduce the risks related to investment. The ultimate aim of all of these is to accelerate the rate of economic growth and reduce poverty.

It must be noted however that the reform of state-owned enterprises (SOEs) belongs, conceptually, to the second phase of structural adjustment, while the stabilisation phase is regarded as the first. This second phase is potentially more demanding both politically and in terms of the planning involved. Privatisation, for instance, takes a long time to implement, which means that opponents could have sufficient time to regroup and fight back, or delay the reform process. Moreover, the intended benefits might only bear fruit in the longer term. In spite of these real and potential constraints, many African countries have been able to reduce the extent of direct public-sector engagement in production by undertaking changes in the management and ownership of public companies. In what follows we provide an account of the process of privatisation in Africa, its achievements, constraints and emerging lessons.

The Privatisation Process has been Sizeable

The number of state-owned enterprises is declining

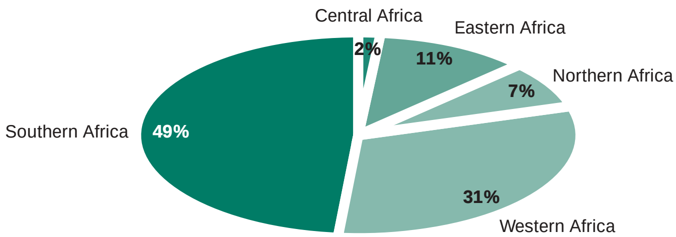
The size of Africa's public sector has decreased significantly as a result of privatisation. The World Bank estimates that the number of state-owned enterprises in Africa fell from 6 069 to 4 058 between 1990 and 1995. The restructured public sector is generally in better financial shape, many of the most inefficient and unprofitable firms having been sold off or liquidated. Of 53 African countries, only nine, Botswana, Liberia, Mauritius, Namibia, Seychelles, Somalia, Swaziland, Algeria and Libya have had no privatisation activity. Botswana, Mauritius, Namibia, and Seychelles with generally financially sound SOEs and with insignificant balance of payments constraints have been under no pressure to privatise. Political reasons largely explain the absence of a privatisation programme in Liberia, Somalia, Swaziland, Algeria and Libya (although the Algerian government is now planning to privatise some of its parastatals).

The privatisation process has principally aimed at opening strategic SOEs to private participation, with focus on national transportation systems (airlines, shipping and railway companies), public utilities (electricity, water) and telecommunications. Privatisation in the telecommunications sector has been particularly dynamic. By 2001, about 18 African countries had privatised their fixed-line operators, while more than three dozen countries had created separate regulatory bodies for the sector. Moreover, some 45 countries have licensed private cellular operators, and effective cellular competition has now emerged in many countries, often yielding to a reduction in tariffs.

Privatisation proceeds have increased

In 2000, privatisation proceeds in Africa amounted to $7.95 billion *(African Development Indicators, 2002)*. Transactions in Southern Africa represented almost half of this total (Figure 7), with South Africa alone accounting for one third ($2.46 billion). Western Africa also witnessed increased privatisation activities attracting more than 30 per cent by sales value, of all privatisation activities on the continent. Eastern Africa accounted for 11 per cent for the continental proceeds while Northern and Central Africa together generated less than 10 per cent of the total sales value. South Africa, Zambia, Côte d'Ivoire, Ghana, and Senegal were the top five countries to generate the most earnings from privatisation. The best sub-regional performers were South Africa (Southern Africa), Egypt (Northern Africa), Côte d'Ivoire (Western Africa), Kenya (Eastern Africa), and Cameroon (Central Africa).

Figure 7 - Shares of Total Sales Value to End-2000

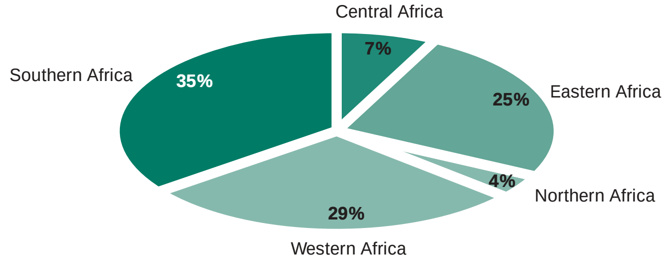


Source: *African Development Indicators 2002*, World Bank.

The number of sales transactions jumped from 334 for the period prior to 1990 to 3 680 in 1990-2000. There is no correlation between the number of transactions and sale proceeds (Figure 8). Some countries, notably Mozambique, where the bulk of privatisation essentially comprises small retail establishments, and Zambia, where big entities have been dismantled into several small private enterprises, have displayed an impressive number of transactions, Yet, the average unit sales value in these two countries ranged between $0.30 million and $3.40 million, compared with an average unit sales value of

$155 million in South Africa. Mozambique, Angola, Tanzania, Zambia and Ghana were the top five countries to record the highest number of transactions in the period considered. The best sub-regional performers were Mozambique (Southern Africa), Egypt (Northern Africa), Tanzania (Eastern Africa), Ghana (Western Africa), and Republic of Congo (Central Africa).

Figure 8 - Shares of Total Number of Transactions to End-2000



Source: *African Development Indicators 2002*, World Bank.

Has Privatisation Achieved its Objectives?

As noted above, the privatisation processes include the following potential benefits: to improve public finances; to attract foreign direct investment and boost economic efficiency; to foster and enhance private sector development and economic liberalisation. The ultimate question is whether privatisation has benefited the poor. Empirical evidence to support the benefits derived from the privatisation process has been mixed.

Employment and Productivity

Privatisation often starts with job cuts. It is argued that the number of workers after a privatisation process ends up being higher than before, as enterprises enter a recovery phase. A survey conducted by the World Bank on 54 privatised enterprises in Benin, Burkina Faso, Ghana, Togo and Zambia points to the contrary. Estimates show that overall employment in the privatised companies declined by 15 per cent, ranging from a 36 per cent fall in Benin to 0.1 per cent stagnation in Burkina Faso. The number of redundancies is in fact generally higher than the number of jobs created, especially in public enterprises that are over-staffed in the first place, such as infrastructures and public utilities. In addition, training has generally proved insufficient for staff to keep up to date with new technologies and changing methods of work organisation, making their retention difficult. Large-scale retrenchment attached to the privatisation and restructuring of public utilities explains why the most publicly persistent and organised opposition to privatisation in Africa comes from labour movements. In the longer term, rising labour productivity is expected to make up for the initial loss of income. Along with retrenchment come some new jobs in the rest of the economy, as a result of privatisation. It is thus difficult to assess the overall distributional effects of privatisation, regarding employment and income opportunities.

Revenue and Fiscal Performance

Through privatisation, governments not only generate funds from the sale of the parastatals and increase their tax receipts as soon as privatised companies start generating some revenue, but also no longer have to bear the fiscal burden of loss-making SOEs. Data suggest that proceeds from privatisation are relatively small. According to World Bank data, average annual sales value in Africa from 1992 to 2000 amounted to less than 0.65 per cent of average annual government revenue (excluding grants). Total sales value cumulated as of 2000 amounted to an average 1.53 per cent of the continent's 2000 GDP (Table 6). Zambia, Cape Verde, Ghana, Senegal, Côte d'Ivoire and Mozambique were at the forefront of privatisation in Africa that year.

Low proceeds are mostly explained by the fact that many SOEs listed to be privatised are heavily indebted. Even in the case of liquidation, governments still have to assume full debt liability. The same applies for concession contracts. In the context of a transfer of ownership, when private investors buy back the firm's debt, the government often has to sell at a discount price. The fiscal gains from privatisation are more evident when put in a long-term perspective, focusing on subsidy savings and the increase of the tax revenue. According to the Privatisation Commission of Burkina Faso[11], government subsidies to SOEs in Burkina Faso dropped from CFA F20.5 billion (1.42 per cent of GDP) in 1991 to CFA F1.39 billion (0.08 per cent of GDP) in 1999 as a result of privatisation, whereas privatised enterprises contributed about CFA F7 billion in tax revenue in 1998. The positive fiscal impact of privatisation can sometimes be delayed, owing to the persistence of the state financial involvement. For example, the Guinean government continued to subsidise the water industry after a lease arrangement was signed in 1989 to help the Société nationale des eaux de Guinée (SNEG) pay the industry's debt.

Table 6 - Privatisation: Sale Values compared to Government Revenue and to GDP (percentage)

Countries	Average annual sale values as a percentage of average annual government revenue (excluding grants) over period of privatisation programme to end 2000	Cumulated sale values (1992-2000) as a percentage of 2000 GDP in 2000
Benin	2.21	2.91
Burkina Faso	0.72	n.a.
Burundi	n.a.	1.62
Cape Verde	15.25	30.82
Congo, Rep. of	0.74	1.56
Côte d'Ivoire	3.52	8.66
Ethiopia	1.89	3.18
Gambia	1.20	2.30
Ghana	5.19	13.21
Kenya	0.99	2.39
Lesotho	n.a.	2.67
Madagascar	1.11	n.a.
Malawi	1.55	3.36
Mali	0.77	n.a.
Mozambique	5.75	5.69
Senegal	4.47	9.43
South Africa	n.a.	1.95
Tanzania	2.96	2.73
Togo	1.59	3.20
Uganda	2.84	2.41
Zambia	12.91	31.12
Zimbabwe	0.75	2.25
ALL AFRICA	**0.63**	**1.53**

Source: *African Development Indicators 2002*, World Bank.

Economic Efficiency

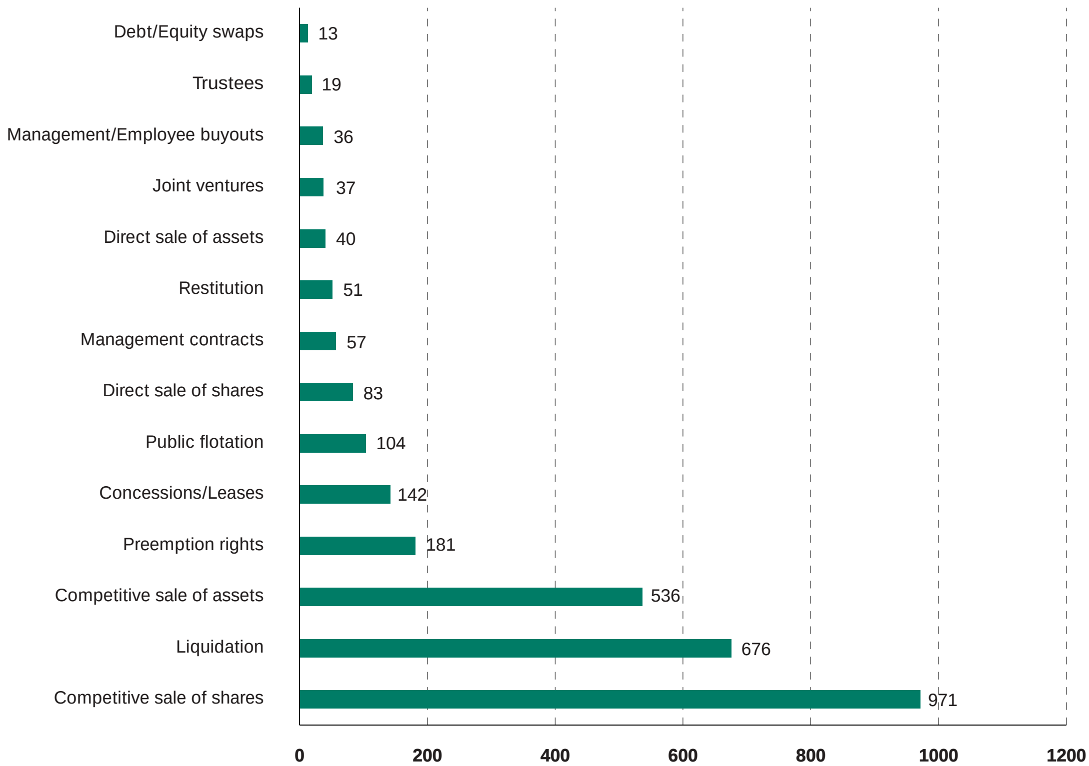
Rising economic efficiency is also described as another potential benefit of privatisation. Privatisation aims at improving enterprise performance by focusing attention

11. See *Bilan des privatisations au Burkina Faso, 1991-1999*, Commission de Privatisation, October 2000.

on financial results and removing state interference. This is conducive to improved profitability, capital investment, transfer of technology and know-how, product diversification and rising output. Overall, few studies have examined the financial performance of privatised firms in developing countries, especially in Africa. A survey published in 1998, estimates that privatised companies in Tanzania have more than doubled their productivity (defined as the number of units produced per employee), whereas their total value added has increased by more than four times. Counter examples, or at least less successful stories, exist however[12]. In Burkina Faso, the 14 per cent rise in the value added that privatised companies generated in 1996-99 mask great discrepancies. There is also a large number of loss-making firms.

The choice of divestiture has also an impact on future performance. World Bank data show that as at end 2000, the most commonly used methods of privatisation in Africa were: competitive sales of shares (971), liquidation (676), and competitive sales of assets (536), and concession and lease contracts (142). Management/employee buyouts (36) and public flotation (104) are less preferred options, simply because

Figure 9 - Privatisation Methods to End-2000 in Sub-Saharan Africa
(number of transactions)



Source: *World Bank African Development Indicators 2002.*

stock exchange markets in Africa (except for Cairo and Johannesburg) are underdeveloped (Figure 9). Selling shares and assets has been more commonly used in sectors where competition exists, such as agriculture, agro-industry, banking and manufacturing. By contrast, concession and lease contracts are the most preferred

12. See B. Andreasson, "Privatization in Africa: has it worked and what lessons can be learnt?" Swedish Development Adviser, October 1998.

methods for the privatisation of public utilities, railways and road transportation, and in some cases, telecommunications.

Evidence suggests that transfers of ownership to the private sector have generally been more successful in improving efficiency. By contrast, experience of lease arrangements in the water industry, most notably in Côte d'Ivoire and Guinea, and concessions contracts in the electricity sector, most notably in Cameroon, has highlighted difficulties in co-ordinating state investment decisions and the firm's operating needs. Badly defined memoranda of understanding are often sources of tension between the state and concession/lease holders, even when the privatisation is deemed successful. For example, there was a lack of clarity regarding the responsibility over major maintenance and investment works for the electricity grid and tariff setting between the *Compagnie Ivoirienne d'Electricité* (CIE) and the state authority EECI in Côte d'Ivoire. This highlights the need for a strengthening of the regulatory framework in many countries in Africa.

Private Sector Development

African governments frequently state that their privatisation programmes are part and parcel of a wider strategy aimed at developing the private sector through increased competition and liberalising the domestic economy. Private investment as a percentage of GDP in Africa increased significantly in the period 1990-2000. Whereas the gross private investment-GDP ratio increased by only 5.3 per cent in Southern Africa – partly because the private sector in this region is already well developed – the same ratio increased by 102.5, 87.6, and 40 per cent in Western, Eastern and Northern Africa respectively. Only Central Africa, where the privatisation process has been slower owing to political instability, has experienced a 12.4 per cent decline in the gross private investment-GDP ratio. Yet the link between privatisation and private-sector development is far from evident. Privatisation does not necessarily lead to an increase in the number of players, and therefore to increased competition. Also, to the extent that most state enterprises are loss-makers, divestiture is unlikely to take place unless it is accompanied by a whole range of incentives that tend to limit the level of competition in the market[13]. In addition, some privatisations in Africa have often resulted in a monopolistic situation, even when measures to liberalise the sector were taken, because of heavy entry costs.

Privatisation can affect prices in two different ways. If privatisation leads to increased competition and improved productivity, prices are expected to fall. There are many situations, however, in which prices increase as a result of privatisation. This is especially the case for public utilities. Indeed, it has been common practice for governments to subsidise electricity and water tariffs in the past. Many concession and leaseholders thus had to readjust tariffs to cost-recovery levels subsequent to privatisation. In fact, tariffs are often raised before privatisation occurs, as governments seek to reduce the SOEs financing gaps and, in so doing, attract strategic buyers. For example, the government in Senegal increased electricity tariffs by 10 per cent in January 2002 after a botched privatisation process with Vivendi Universal. Governments in Zimbabwe and Kenya are in the process of revising their electricity tariff policy ahead of privatisation. A rise in public utility prices (and the recovery of unpaid bills) has generally a stronger impact on low-income consumers, since they have to spend a higher percentage of their income in public utilities.

In the longer term, a rise in prices is expected to help finance an expansion of the public utility network. In particular, privatisation might improve access to products, through economies of scale that the former public firm could not always finance. Nevertheless, some private owners are also likely to withdraw from markets previously serviced by Sues, instead concentrating on activities with a positive commercial

13. See Thandika Mkandawire "Political Economy of Privatization" in *From Adjustment to Development in Africa: Conflict, Controversy, Convergence, Consensus?* T. Macmillan, Basingstoke and St Martin's Press Inc. NY, 1994.

rate of return. This is often evidenced in transport or rural electrification. It seems that privatisation in the utilities sector has led to a rise in the quality of, and access to, services, but often at great social costs. One way to ensure enhanced profitability and the renovation and expansion of the public utility network, without curtailing the purchasing powers of consumers too significantly, is to find a well-balanced partnership between private operators, the government, customers, and international lenders. Sections of the investment programme, which specifically target poverty reduction (such as rural electrification), can notably be supported by concessional loans from multilateral lenders.

Reducing Poverty: Challenges for the Future

Assessing Africa's Progress Towards the MDGs

The Millennium Development Goals (MDGs), which are based on the United Nations Millennium Declaration of 2000, consist of eight goals. The first six aim at reducing income-poverty and its social manifestations, including poor health and inadequate education opportunities. The seventh aims to ensure environmental sustainability, while the eighth advocates genuine international partnerships for development and addresses the issue of how developed countries could assist developing countries to attain the other seven MDGs[14].

Drawing on the experience of the last decade it is evident that achieving the goals would be difficult but not impossible. There are, however, clear disparities among the regions of the world. While most Asian, Latin American, and the Caribbean countries are on course to meet many of the MDGs, most African countries are unlikely to meet them. Even among African countries, significant differences exist regarding economic and social progress towards the MDGs. One notable disparity is between Northern Africa and sub-Saharan Africa. Northern Africa has the lowest poverty rate among all developing regions in the world, with only 2 per cent of its population living under the poverty line of one dollar per day. At the other extreme, sub-Saharan Africa has the highest poverty ratio in the world, with 46 per cent of its population living under the poverty line of one dollar per day[15].

This large disparity between the two sub-regions reflects variations not only in past growth performance but also in the quality of growth and in human capital development. For instance, recent estimates show that while a one per cent increase in income reduce poverty by 2.30 per cent in Northern Africa, it will reduce poverty by only 1.03 per cent in sub-Saharan Africa. This suggests that the process of economic growth in Northern Africa is more broad-based and pro-poor than that in sub-Saharan Africa. The variations in the quality of growth between the two sub-regions are directly related to disparities in human capital development as depicted by such indicators as school enrolment, life expectancy and literacy and mortality rates.

14. The eight goals are: *i)* eradicate extreme poverty and hunger: halve the proportion of people with incomes of less than one dollar a day and halve the proportion of people who suffer from hunger by 2015; *ii)* achieve universal primary education and ensure that boys and girls alike complete primary schooling by 2015; *iii)* promote gender equality and empower women – eliminate gender disparity at all levels of education; *iv*) reduce child mortality – reduce by two thirds the under-five mortality rate by 2015; *v)* improve maternal health – reduce by three quarters the maternal mortality ratio by 2015; *vi)* combat HIV/AIDS, malaria and other diseases – halt and reverse the spread of HIV/AIDS and halt and reverse the spread of malaria, tuberculosis and other diseases; *vii)* ensure environmental sustainability, integrate the principles of sustainable development into county policies and programmes and reverse the loss of environmental resources – halve the proportion of people without access to potable water by 2015 and significantly improve the lives of at least 100 million slum dwellers by 2020; and *viii)* develop a global partnership for development: increase official development assistance, expand market access, support debt sustainability, implement strategies for decent and productive work for youth, provide access to affordable, essential drugs, and make available the benefits of new technologies.

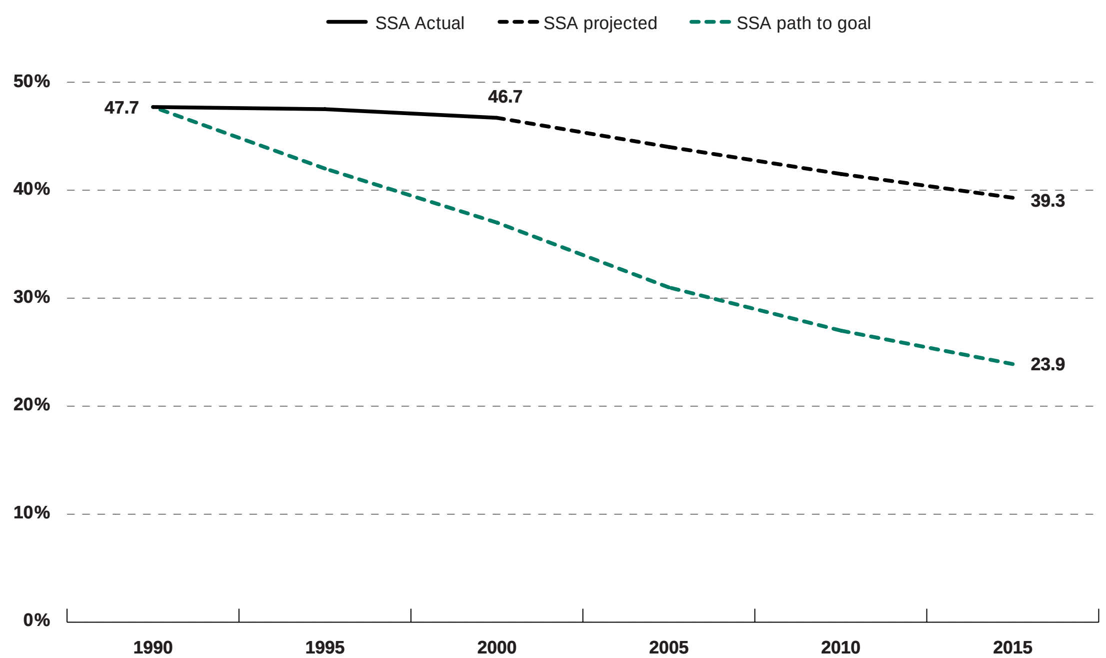
15. For a comparison of poverty profiles see Ali Ali (2001) "A Profile of Rural Poverty in Africa", Background Paper for the African Development Report 2002. African Development Bank, Abidjan, Côte d'Ivoire.

In what follows, we provide a goal-by-goal assessment of the progress of African countries towards the MDGs. In a nutshell, the overall levels for all countries in sub-Saharan Africa in terms of income and social indicators remain very low. Only a few countries will reach a limited number of MDGs by 2015. While the aggregate picture for sub-Saharan Africa is gloomy, disaggregated analyses reveal some positive developments in some individual countries. In particular, countries that have implemented sound economic policies and improved their governance structures have been able to make some quantifiable progress in terms of education, health and social well-being. There are, by contrast, other countries where policy improvements have yet to be secured before progress towards the MDGs can be made. Some important internal and external factors have contributed to these outcomes. Internally, conflicts and policy reversal have shattered previously strong economic performers. For instance, the evidence suggests that poverty has increased in Côte d'Ivoire since the December 1999 *coup* and is expected to rise further following the armed conflict of September 2002. The external factors included deteriorating terms of trade and lower aid flows. The HIV/AIDS pandemic is an added "exogenous" factor that retards the development of some African countries towards attaining the MDG. For instance, secondary school attendance and the supply and quality of teaching have dropped in Botswana as a result of HIV/AIDS and health services are becoming increasingly difficult to access in Zimbabwe. In contrast, there has been a significant improvement in primary school enrolment in Ethiopia since the end of the war with Eritrea.

Growth and Poverty Reduction

Reducing poverty by half by the year 2015 in sub-Saharan Africa would require a GDP growth rate of about 7.4 per cent per annum[16]. Given the historical record of growth in this region and given the rate of

Figure 10 - Progress Towards Poverty Reduction MDG in Sub-Saharan Africa



Source: AfDB staff estimates.

16. See Ali Ali, op. cit.

Table 7 - Progress Toward the MDGs
(22 selected countries of the African Economic Outlook Report)

Goals / Countries	Goal 1 Halve Poverty	Goal 2 Enrol all Children	Goal 3 Gender Equality in Schools	Goal 4 Reduce Infant Mortality Rates (IMR) by 2/3	Goal 5 Reduce Maternal Mortality by 3/4	Goal 6 Access to Reproduce Health Services	Number of Goals on Target to be Achieved
Algeria	Yes	Yes	Yes	Yes	Yes	No Data	5 of 5
Egypt	Yes	Yes	Yes	Yes	Yes	No Data	5 of 5
Morocco	Yes	Yes	No	Yes	No	No Data	3 of 5
Tunisia	Yes	Yes	Yes	Yes	Yes	No Data	5 of 5
Botswana	No	Yes	Yes	No	No	No Data	2 of 4
Burkina Faso	No	No	Yes	No	Yes	No	2 of 6
Cameroon	No	Yes	No	No	Yes	No	2 of 5
Côte d'Ivoire	No	No	No	Yes	No	No Data	1 of 4
Ethiopia	No	No	No	No	No	No Data	0 of 4
Gabon	No	Yes	Yes	Yes	No	No Data	3 of 4
Ghana	No	No	No	Yes	No	No	2 of 6
Kenya	No	Yes	No	No	No	No	2 of 6
Mali	No	No	No	Yes	Yes	No	3 of 6
Mauritius	Yes	Yes	Yes	No	Yes	No Data	3 of 4
Mozambique	No	No	No	No	Yes	No Data	1 of 4
Nigeria	No	No	No	No	No	No	0 of 6
Senegal	No	No	No	Yes	Yes	No	3 of 6
South Africa	No	Yes	Yes	No	No	No Data	2 of 4
Tanzania	No	No	Yes	No	No	No	2 of 6
Uganda	No	Yes	No	Yes	No	No	2 of 5
Zambia	No	No	No	No	No	No	0 of 6
Zimbabwe	No	No	Yes	No	Yes	No	2 of 6
Completion rate	**23%**	**50%**	**45%**	**45%**	**45%**	**-**	

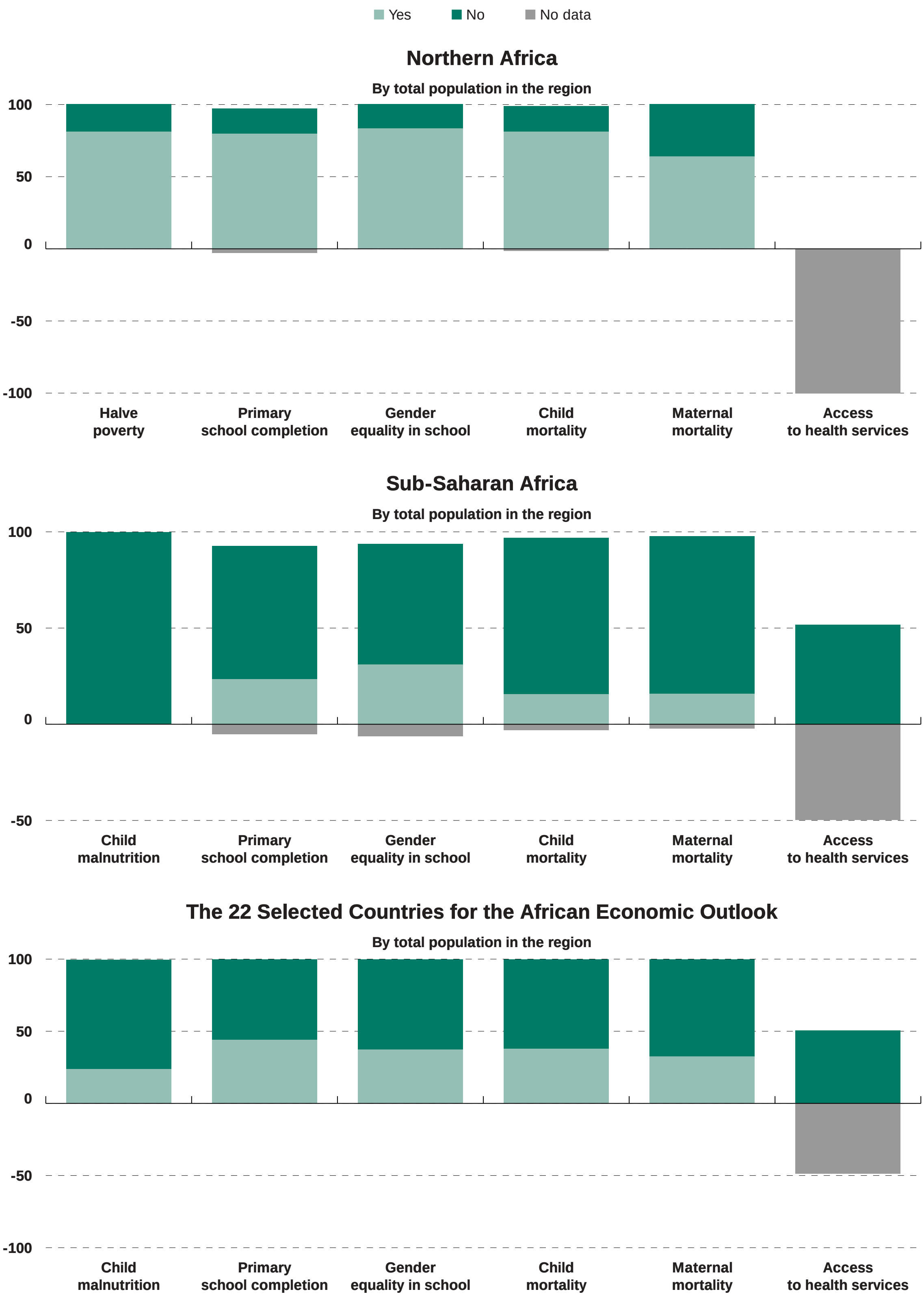
Note: The table reports projections of goal's achievement by country by 2015 (AfDB staff estimates).

savings and the magnitude of foreign aid flows, such a growth target is unfeasible. Figure 10 shows the projected rate of poverty reduction in Africa based on present trends, against the required rate of reduction that will ensure the attainment of the goal. It is clear that on present trends, the poverty ratio will be reduced from about 48 per cent in 1990 to about 39 per cent in 2015, far from attaining the figure of 24 per cent depicted by the path to goal.

At disaggregated level, none of the sub-Saharan countries of the African Economic Outlook sample will reach the poverty reduction target (see Table 7 and Figure 11). However, there are some fourteen sub-Saharan countries, which have registered average growth rates of over 5 per cent during the period 1995-2001. Among the countries covered by this issue of the AEO, these include Botswana, Mozambique, Uganda and Senegal. Although these countries are unlikely to achieve the MDG goal on poverty in full, they can – on present trends — be expected to make substantial progress towards it. At the other extreme are countries, which, due to persistent conflicts or severe governance problems, are regressing away from the MDGs.

By contrast, achieving the MDG of poverty reduction in North Africa requires GDP to grow by an annual rate of 4.1 per cent, which, at current trends, is feasible. Thus, the North African countries covered by the AEO comprising Algeria, Egypt, Morocco and Tunisia are all expected to meet the target of reducing poverty by half by 2015.

Figure 11 - Reaching the Goals in the African Regions ?



Note: The green bars represent the proportion of people in the region that are projected to attain the target by 2015.
Source: World Bank.

Education

On education, the MDGs call for achieving universal primary education and for promoting gender equality and empowering women. In many countries, schools fail to enrol or keep all children in school. There are also large gaps between reported enrolment, attendance and completion rates. In Africa, 21 countries representing rather more than half of the continent's population are likely to meet the education target. These include Algeria, Egypt, Morocco and Tunisia, but also South Africa, Cameroon, Gabon, Kenya, Mauritius and Uganda. Among the remaining 24 countries for which data are available, 14 have actually regressed away from this target. These include Botswana, Nigeria and Zimbabwe whose enrolment records are declining from their high levels in 1990. Education policies would be needed to strengthen the incentive structure to attract competent teachers, especially for those in rural areas; and strengthen higher education not only to make the educational system sustainable but also to provide the skills needed for managing the government apparatus.

As for bridging the gender gap in education, Northern African countries are expected to achieve gender equality in school enrolment by 2015. In sub-Saharan Africa, the ratio female to male enrolment in primary and secondary education is already above 95 per cent in South Africa, Gabon, Mauritius and Tanzania. These countries, along with Zimbabwe and Burkina Faso, are expected to bridge the gender gap by 2015. In a few cases, deteriorations are actually observed indicating worsening performances in terms of gender equity at school. This is most pronounced in Ethiopia and Kenya, a situation which is certainly worrisome as basic education and literacy are crucial for enabling women to benefit from labour market opportunities, become more conscious about their legal rights, and enhance their possibilities for participating in public life and decision-making processes. Given the important role of women in African economies, gender issues should in fact be put at the centre of agriculture, education and health policies not only to promote social equity but also to improve health, raise productivity, increase incomes, and reduce population growth and poverty.

Health

In health, the MDGs aim at reducing child mortality, improving maternal health and combating HIV/AIDS, malaria and other diseases. Progress towards the goal of reducing child mortality is not encouraging. Child mortality is, in fact, likely to increase in 31 countries in Africa, representing 65 per cent of the continent's population. Few countries are nonetheless expected to achieve the MDG of reducing infant mortality rate by two-thirds by 2015. These include Algeria, Egypt, Morocco, Tunisia, and in sub-Saharan Africa, Côte d'Ivoire (although this may need revising in view of the armed conflict that broke out in September 2002), Ghana, Mali, Senegal, Gabon and Uganda. Concerning maternal health, it is found that 14 countries accounting for 31 per cent of Africa's population are likely to achieve the desired reduction in the maternal mortality ratio. These include Algeria, Egypt, Tunisia, Mozambique, Zimbabwe, Mali, Senegal, Cameroon and Mauritius. Yet, there are some 27 countries in Africa, where the trend is negative, indicating that maternal mortality is more likely to rise if present conditions prevail. It must be noted, however, that the spread of HIV/AIDS is largely responsible for the rise in the incidence of infant and maternal mortality in sub-Saharan Africa. The spread of HIV/AIDS is also largely responsible for the decline in life expectancy as documented in the *African Economic Outlook* (2001/2002).

It is important to emphasise that there are large variations between rural and urban areas, especially in health indicators. Urban areas usually fare better and are more likely to achieve the development goals. Given severe capacity constraints within the health sectors of many African countries, it is important to empower health professionals with appropriate and better training as well as adequate facilities. This will notably help to increase the number of births attended by skilled health personnel. In terms of health policies, the need to give priority for preventable diseases such as malaria, tuberculosis and HIV/AIDS, which are the most important causes of mortality, especially among the poor, should be underscored. There has been limited progress in combating such diseases in Africa. In 2000, it is estimated that there were over 800 000 deaths from malaria in sub-Saharan Africa. WHO estimates that in 2001 there were 2.3 million AIDS deaths in sub-Saharan Africa, where the average adult prevalence rate has reached 8.4 per cent. In countries with the highest prevalence rates, the HIV/AIDS virus threatens to annihilate all progress made in terms of education, health and social well-being. The situation is particularly worrisome in Southern Africa, most notably in Botswana, which faces a serious epidemic. National programmes to stem the spread of the disease have produced encouraging results in Uganda and Senegal. In this regard, it is important to implement a two-pronged policy: prevention and treatment to avoid virus transmission from mother to child.

Environment

Progress towards the sustainable management of the environment has been made in many areas, but challenges persist and new ones are emerging. Natural resource management policies to fight deforestation, desertification, and overgrazing, are essential in many African countries that face rapid soil erosion and water scarcity. One quantifiable goal is to halve the proportion of people without access to clean water. Only 55 per cent of the population in sub-Saharan Africa have access to safe drinking water and adequate sanitation services. There are wide variations among countries, however. For example, 87 per cent and 78 per cent of the population in Ethiopia respectively have no access to sanitation and improved water sources. At the other extreme, sanitation and safe water is accessible to the totality of the population in Mauritius.

International Co-operation

Achieving the MDGs will require enhanced international co-operation and assistance by the industrial countries in the three areas of trade, concessional assistance and debt relief. As mentioned above, the donor community has over the last few years taken important new initiatives to support the efforts of developing countries as they seek to meet the MDGs. The United States government has passed the African Growth and Opportunity Act (AGOA), the European Community has adopted the "Everything but Arms Initiative" for the least developed countries, and the HIPC debt relief initiative has been enhanced and is now under implementation. In the context of the recent Monterrey Conference, both the European Community and the United States have pledged to increase their ODA substantially. These are important initiatives that will need to be sustained and deepened to enable the donor community to fulfil its pledge of supporting the MDGs.

While these policies are essential, they would need to be complemented by measures to help African countries transform their production structures, in order to help them to take advantage of increased market access.

Policy Assessment and the Cost of Meeting the MDGs in Africa[17]

Accelerating growth and improving health and education outcomes towards attaining the MDGs will require large resources for financing investments in both physical and human capital. While private investment and commercial borrowing may play an important role, the majority of African countries cannot attract sufficient private investment. For those countries, development assistance provided directly by rich countries or through multilateral institutions fills a critical need. How much more aid will be needed to reach the Millennium Development Goals? The answer to this question depends, to a large extent, on the policy and institutional environments in recipient countries, which determine the degree of absorption and efficiency (productivity) of using additional resources. Donors now attach considerable importance to this question by stressing the need to improve the development effectiveness of their assistance. The goal

17. This sections draws heavily on the *Global Poverty Report* (2002) prepared by the AfDB in collaboration with the World Bank and other MDBs.

of improving the development effectiveness of foreign aid will be well served by greater selectivity in the allocation of aid through linking international assistance to policy performance.

The World Bank and African Development Bank now adopt similar systems for assessing the policy stance and institutional performance of African countries by evaluating performance in four clusters: governance and the public sector; structural and market reorientation; macroeconomic policies; policies for growth with equity and for poverty reduction (Box 1). While each institution performs this assessment independently, recent analysis reveals a strong and positive correlation between the two assessments in all clusters, and in the overall ranking of countries.

Box 1 - Country Performance Assessment Framework

The World Bank and the African Development Bank have independently devised frameworks for assessing the policy stance of borrowing countries and the institutional framework in place. The Country Performance Assessment (CPA) framework is used to help ensure that scarce development resources are channelled to countries that are able to use them effectively. The system is used to allocate IDA and ADF resources, taking into account both the performance of countries as well as their needs. The CPA framework has two parts: the Country Policy and Institutional Assessment (CPIA), and the Country Portfolio Performance Assessment (CPPA). The CPIA rating criteria are grouped in four clusters: macroeconomic policies, structural policies, policies for growth with equity and poverty reduction, and good governance and public sector performance. The CPPA, in turn, aims to assess the degree to which projects and programmes are implemented effectively.

Using the CPA framework, the Bank evaluates the quality and sustainability of a country's policies and programmes in their impact on access of the poor to productive assets and social services, the main objectives being the reduction in poverty and income inequality. The evaluation includes pro-poor policies and programmes related to primary education, preventive health care, gender equality and regional equity. The evaluation also examines the government's readiness to implement policies in favour of labour-intensive economic activities; to safeguard and reshape critical poverty-related spending when implementing major stabilisation or adjustment programmes; to target subsidies or other specific remedial programmes for those who may be unable to take advantage of pro-poor and public expenditure policies; and the extent to which sound national environmental action plans are implemented. Good governance and public sector performance, especially those aspects directly concerned with ensuring accountability for the effective use of financial resources through better budgeting, monitoring and auditing, are receiving greater weight in the performance assessment. Given the Monterrey consensus on the need to provide the necessary resources for poor countries that design and implement effective poverty reduction strategies, the CPA framework represents an important tool for facilitating the allocation of ODA across countries. It may thus be useful to adopt the tool to harmonise donor intervention mechanisms and procedures, thus improving the chances for increasing the efficiency of international resources devoted to the achievement of MDGs.

Source: *Global Poverty Report* (2002), Prepared by the ADB in collaboration with the World Bank and other MDBs.

Using the ADB ratings, 22 African countries, classified as group A, had high assessments, indicating stronger policies and institutions to support development; 15 countries, classified in group B, were intermediate; and 15 countries, most experiencing political and economic instability, have yet to institute good policies and adequately functioning institutions and are classified in group C. It has been found that there is an apparent link between country rating and country performance with countries in groups A and B outperforming the others in economic management, economic performance and social development.

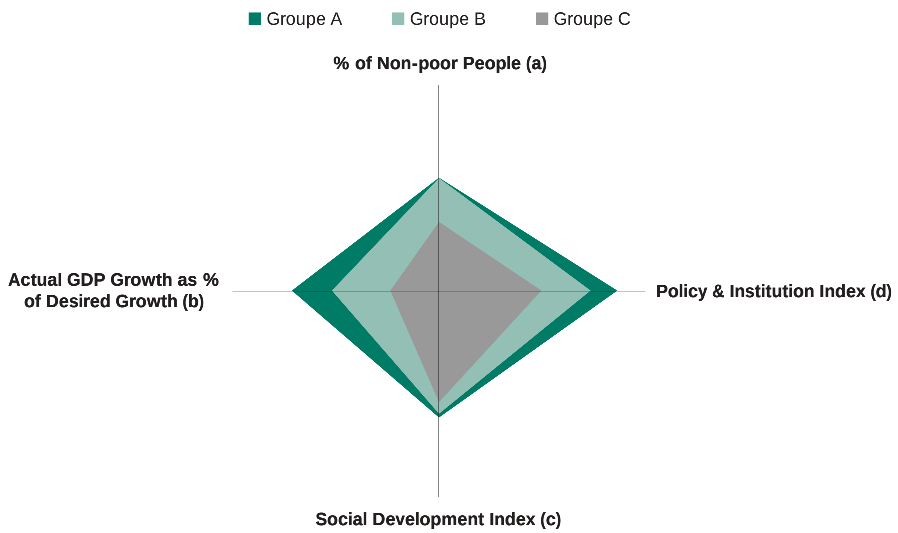
This finding gains in significance when the "oil factor" is taken into account. In countries with rich oil resources, investors are not likely to be deterred by inadequate policies, weak institutions, or even conflicts. This "oil factor" masks the close correlation between sound policies and institutions and economic performance. It has been found that while group A countries have generally performed better than the other countries, the non-oil countries in that group stand out as the strongest performers when compared with their counterparts in the other groups. They have the smallest budget deficits, the lowest inflation, and the largest saving and investment ratios. They also have the highest rates of GDP and export growth, the lowest current account deficit and better social indicators. These are indeed the countries that will make important headway toward achieving the MDGs.

Despite the relative improvements in economic performance and social development for reforming countries, the overall levels for all countries in sub-Saharan Africa — in income and other social indicators — remain very low. Except for the differences between best and worst performers, economic indicators and especially social indicators for most sub-Saharan countries are comparable — as borne out by the diamond graph shown in Figure 12. So, while there is some relationship between growth and improvements in social indicators, the level of social development in even the best performing countries is still too low. Some important external and exogenous factors have contributed to these outcomes: the deteriorating terms of trade, the lower aid flows, and the HIV/AIDS pandemic.

Recent work by the African Development Bank provides estimates (based on an export-import gap approach) of the additional resources required by African countries for achieving the MDG on poverty. Although this approach differs from the saving-investment approach used by the World Bank, its results point to similar orders of magnitude (see Table 8). Using the results of the ADB study the additional aid requirements for a subset of some 31 sub-Saharan African countries that have either displayed good performance or have the potential to perform is estimated at about $24 billion, compared with about $12 billion which they currently receive as ODA.

Countries in this group are expected to maintain their policy and institutional stance and further deepen the reform process toward sound policies and efficient institutions. Policy reversals and institutional setbacks would mean lower efficiency and compromise reaching the targets, despite greater financial assistance. So,

Figure 12 - Policy Ratings and Socio-economic Development



Note: (a) The average ratio of the non-poor in each group. The non-poor are measured as one minus the average head count ratio in each group. The poverty line used is $1 a day. Data for this indicator are not available for all countries. The average for each group is, therefore, represented by the average for the countries with available data. (b) Actual GDP growth as a ratio of the target rate of growth required for achieving the MDG on poverty. The computation is done for each country and the results were then averaged for each group of countries. In theory this indicator can exceed 100 per cent. (c) The simple average of three indicators comprising primary school enrolment, literacy rate, and under-five mortality rates. Among the other social indicators these three were chosen because their data are most complete. For each indicator, data are transformed into indices, then averaged to arrive at a composite indicator, which was then averaged for each group. (d) ADB Bank Group CPIA averaged over the period 1999–2001 and transformed into an index by dividing the average CPIA for each country by the best score (such that the country that has the highest CPIA scores 100 per cent and other countries lower than this). This index is then averaged for each group.

Source: AfDB staff estimates.

Table 8 - Cost Estimates of Attaining the MDGs

Estimates	Number of Countries	Cost in $ billion per annum Total Estimate	Average per Country
World Bank[1]			
Uphill countries[2]	65	54	0.830
Countries with adequate policies and institutions	43	39	0.906
Countries with weak policies and institutions	22	15	0.681
ADB[3]			
African Countries with adequate policies	31	23.8	0.768
African Countries with inadequate policies	16	11.7	0.734

Notes: 1: World Bank Staff Estimates, based on Devarajan, M. Miller and E. Swanson, *Goals for Development: History, Prospects, and Costs*, World Bank, Office of Vice President, Human Development Network, and Development Data Group, Washington, DC., 2001.
2: Uphill countries are the potential recipients of additional aid.
3: AfDB staff estimates based on Hussain, 2001, "Exorcising the Ghost: an alternate model for measuring the financing gap in developing countries", *Journal of Post Keynesian Economics*, Vol. 24, No. 1, Fall 2001.

future allocation of the estimated additional aid to individual countries in this group should be contingent on maintaining and improving economic and political governance, as well as improving the effectiveness of using resources.

Sixteen countries, most experiencing political and economic instability, are deemed not to have sound policies and adequately functioning institutions. These countries are unlikely to effectively use the estimated amount of aid reported in Table 8. Now receiving $1.6 billion a year, they will require specially tailored assistance for conflict resolution, post-conflict reconstruction, building institutions of political and economic governance, and deepening political and economic reforms. For post-conflict countries, special measures would ensure the provision of basic social services. Thus, the support of the international community necessarily plays a critical role, but much depends on the actions of African countries themselves, and, importantly, on the policy framework they have in place.

Governance and Political Issues

The previous discussion amply documents the fact that good governance is a prerequisite for poverty reduction. The discussion also reveals that macroeconomic crises and imbalances in many African countries are closely related to the conduct of economic and political governance. Inadequate economic and political governance is clearly one of the critical factors underlying many of the development problems facing Africa today. While enduring peace and stability coupled with economic reforms have emerged in the majority of African countries, a good many encountered civil strife and conflicts generated by dissatisfaction with the economic, social and political arrangements, leading to economic decline and increasing poverty. Recognising the fundamental role of good governance, NEPAD stresses the cardinal importance of committing African leaders to the pursuit of peace, security and good governance. As is now well known, NEPAD calls upon African leaders to take responsibility for promoting accelerated economic growth, and poverty reduction, by strengthening governance, and creating an environment conducive for private investment. In what follows, we briefly report the progress in the construction and implementation of the NEPAD over 2002. The discussion will then turn to the principal progresses and setbacks experienced by African countries in the domain of governance and political stability, with special reference to the sample of the 22 countries surveyed in the *African Economic Outlook.*

NEPAD

NEPAD was launched in 2001 with a view to promoting an African solution to the many difficulties faced by the continent. It is a pledge by African policy makers to work together towards finding a lasting solution to the development challenges facing Africa. Concrete steps have been initiated in the context of the launch of the African Union, and have led to the mobilisation of specialised African institutions, in particular the UNECA and the African Development Bank to implement the ideals of NEPAD. Foreign partners, such as the OECD, have pledged their support. In this context, G8 countries have pledged to increase their aid to Africa, which is necessary to finance the infrastructure projects of NEPAD.

A conference was organised in Dakar in April 2002 on the financing of NEPAD, which attracted a number of private-sector representatives interested in the implementation of NEPAD-related projects. Some 89 regional and transcontinental projects were discussed, in the sectors of information and communication technology, environment, infrastructure and energy.

The African Development Bank, for instance, mobilised experts to prepare Short-Term and Medium-long Term Action programmes in the infrastructure sub-sectors namely: Energy, Transport, Water and Sanitation and Information and Communications Technology. The Short-Term Action Plan focuses on priority physical investments accompanied by policy, regulatory and institutional measures aimed at improving the efficiency of the existing infrastructure on the continent.

The Medium-Long Term Plan will entail activities that would be undertaken to allow a steady, continuous and sustained development of infrastructure in the continent. The Bank Group organised a NEPAD Infrastructure Workshop in Abidjan 27-29 June 2002 for Regional Economic Communities to discuss and review the Short-Term Plan and the Terms of Reference for the Medium-Long perspective study.

A number of other conferences and workshops have been organised to launch NEPAD activities, in particular on the African Peer Review Mechanism (APRM), market access, industrial strategies and export diversification and communication of NEPAD. A forum of African parliamentarians was also organised in October to mobilise members of African parliaments and therefore contribute to disseminating the NEPAD concept at political level beyond the inner circle of its implementation committee.

At implementation level, significant progress may now be expected concerning the APRM, which is at the heart of the initiative. The APRM envisages four types of review, which can be classified as the base review, periodic review, country-requested review and crisis-induced review (see Box 2). The APRM concept is starting to gain ground, and a dozen of African countries have now volunteered for being subject to review in the initial stage. The fifth summit of the Heads of State and Government Implementation Committee convened in Abuja in November 2002 has placed the political responsibility for the APRM with the African Union, which is vital to the political viability of the mechanism, especially concerning its sensitive political governance dimension. The APRM will become operational in May 2003 and will involve contributions at the technical level from the UNECA and the African Development Bank, within a framework yet to be determined.

Box 2 - THE AFRICAN PEER REVIEW MECHANISM (APRM)

- The African Peer Review Mechanism (APRM) is an instrument voluntarily acceded to by Member States of the African Union as an African self– monitoring mechanism.

Mandate of the APRM

- The mandate of the African Peer Review Mechanism is to ensure that the policies and practices of participating states conform to the agreed political, economic and corporate governance values, codes and standards contained in the Declaration on Democracy, Political, Economic and Corporate Governance. The APRM is the mutually agreed instrument for self-monitoring by the participating member governments.

Box 2 - THE AFRICAN PEER REVIEW MECHANISM (APRM) *(cont.)*

Purpose of the APRM

- The primary purpose of the APRM is to foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated sub-regional and continental economic integration through sharing of experiences and reinforcement of successful and best practice, including identifying deficiencies and assessing the needs for capacity building.

Principles of the APRM

- Every review exercise carried out under the authority of the Mechanism must be technically competent, credible and free of political manipulation. These stipulations together constitute the core guiding principles of the Mechanism.

Participation in the African Peer Review Process

- Participation in the process will be open to all member states of the African Union. After adoption of the Declaration on Democracy, Political, Economic and Corporate Governance by the African Union, countries wishing to participate in the APRM will notify the Chairman of the NEPAD Heads of State and Government Implementation Committee. This will entail an undertaking to submit to periodic peer reviews, as well as to facilitate such reviews, and be guided by agreed parameters for good political governance and good economic and corporate governance.

Periodicity and Types of Peer Review

- At the point of formally acceding to the peer review process, each State should clearly define a time-bound Programme of Action for implementing the Declaration on Democracy, Political, Economic and Corporate Governance, including periodic reviews.

- There will be four types of reviews:

Initial Review.

The first country review is the base review that is carried out within eighteen months of a country becoming a member of the APRM process;

Periodic Review.

There is a periodic review that takes place every two to four years;

Country-Requested Review.

A member country can, for its own reasons, ask for a review that is not part of the periodically mandated reviews; and,

Crisis-Induced Review.

Early signs of impending political or economic crisis in a member country would also be sufficient cause for instituting a review. Such a review can be called for by participating Heads of State and Government in a spirit of helpfulness to the Government concerned.

Stages of the Peer Review Process

- **Stage One** will involve a study of the political, economic and corporate governance and development environment in the country to be reviewed, based principally on up-to-date background documentation prepared by the APRM Secretariat and material provided by national, sub-regional, regional and international institutions.

- In **Stage Two,** the Review Team will visit the country concerned where its priority order of business will be to carry out the widest possible range of consultations with the Government, officials, political parties, parliamentarians and representatives of civil society organisations (including the media, academia, trade unions, business, professional bodies).

- **Stage Three** is the preparation of the Team's report. The report is prepared on the basis of the briefing material prepared by the APRM Secretariat and the information provided in-country by official and unofficial sources during the wide-ranging consultations and interactions with all stakeholders. The report must be measured against the applicable political, economic and corporate governance commitments made and the Programme of Action.

Box 2 - THE AFRICAN PEER REVIEW MECHANISM (APRM) *(cont.)*

- The Team's draft report is first discussed with the Government concerned. Those discussions will be designed to ensure the accuracy of the information and to provide the Government with an opportunity both to react to the Team's findings and to put forward its own views on how the identified shortcomings may be addressed. These responses of the Government will be appended to the Team's report.

- The Team's report will need to be clear on a number of points in instances where problems are identified. Is there the will on the part of the Government to take the necessary decisions and measures to put right what is identified to be amiss? What resources are necessary to take corrective measures? How much of these can the Government itself provide and how much is to come from external sources? Given the necessary resources, how long will the process of rectification take?

- The **Fourth Stage** begins when the Team's report is submitted to the participating Heads of State and Government through the APRM Secretariat. The consideration and adoption of the final report by the participating Heads of State and Government, including their decision in this regard, marks the end of this stage.

- If the Government of the country in question shows a demonstrable will to rectify the identified shortcomings, then it will be incumbent upon participating Governments to provide what assistance they can, as well as to urge donor governments and agencies also to come to the assistance of the country reviewed. However, if the necessary political will is not forthcoming from the Government, the participating states should first do everything practicable to engage it in constructive dialogue, offering in the process technical and other appropriate assistance. If dialogue proves unavailing, the participating Heads of State and Government may wish to put the Government on notice of their collective intention to proceed with appropriate measures by a given date. The interval should concentrate the mind of the Government and provide a further opportunity for addressing the identified shortcomings under a process of constructive dialogue. All considered, such measures should always be utilised as a last resort.

- Six months after the report has been considered by the Heads of State and Government of the participating member countries, it should be formally and publicly tabled in key regional and sub-regional structures such as the Pan-African Parliament, the African Commission on Human and Peoples' Rights, the envisaged Peace and Security Council and the Economic, Social and Cultural Council (ECOSOCC) of the African Union. This constitutes the **Fifth and final stage** of the process.

Duration of the Peer Review

- The duration of the review process per country should not be longer than six months, commencing on the date of the inception of Stage One up to the date the report is submitted for the consideration of the Heads of State and Government.

Funding of the Peer Review Mechanism

- Funding for the Mechanism will come from assessed contributions from participating member states.

Review of the APRM

- To enhance its dynamism, the Conference of the participating countries will review the APRM once every five years.

Source: Adapted from the document of 38th Ordinary Session of the Assembly of Heads of State and Government of the OAU: African Peer Review Mechanism, 8 July, 2002. Durban, South Africa.

Given the difficulties faced so far by African leaders in working together to improve political governance, an initial success in the implementation of the APRM is vital for the future of NEPAD. Accordingly, a number of indicators still point to the urgent need to improve political governance, notably through promotion of integrity and resolution of internal and regional political conflicts.

Governance

During the last decade or so, most African States have practised some form of multiparty elections. Although the results of such elections are at best mixed, there are still success stories that have banished dictatorship, widening, thereby, the scope for good political and economic governance (African Development Report, 2001). Some of these cases include South Africa, Uganda, Nigeria, Malawi, Ghana, Botswana, Mauritius, Senegal, and recently (December 2002) Kenya. Notwithstanding these positive developments, there are still many parts in Africa where progress would need to be made towards greater adherence to the axioms of good politics including basic political order, political legitimacy and rule of law. There are still cases where democracy is superficial and based on ethnic elections. More will also need to be done to improve the degrees of political equality, intergroup tolerance, inclusiveness, and popular participation. Related to these, the existence of societal peace and the promotion of an environment that respects human rights are still inadequate as evidenced by the number of African countries mired in instability and conflicts. Monitoring, documenting and assessing the performance of economic and political governance in Africa are certainly one of the major challenges confronting APRM.

Assessing the quality of political governance, and comparing country performances on this account is a difficult exercise. The state of economic and political governance can be looked into with reference to three axioms including *citizens' influence and oversight*, *responsive and responsible leadership*, and *social reciprocities*. In practice, the degree of adhesion to these axioms is reflected in a number of interrelated outcomes. If, for instance, citizens have no influence and oversight and the political leadership is irresponsible and not responsive to the voice of the people, the environment will be ripe for political instability, corruption and socio-economic decay. Non-adherence to the axiom of social reciprocities – where social groups and their leaders are incapable of transcending the boundaries of religion, kinship, ethnicity, or race – is a recipe for violent conflicts and civil war (see ADR 2001). With this framework in the background, we examine the performance of governance in a selected number of African countries with reference to the prevalence of corruption, the political environment, and the incidence of conflicts.

Corruption, narrowly defined as "the abuse of public office for private gain"[18] is probably the most straightforward indicator of the quality of political governance, although it provides admittedly only a partial picture. Corruption involves using a position of power to seek or extort an advantage by a public servant in consideration for the performance or omission of an act, which constitutes both a symptom and an outcome of poor governance. It must be noted, however, that corruption has reached global proportions and it is present in all societies. It occurs in poor, emerging and developed countries, regardless of the level of social and economic development. It also occurs in countries with varying forms of government, ranging from dictatorships to established democracies (African Development Report 2001). Nonetheless, a defining distinction between countries is when corruption becomes the rule rather than the exception. More importantly to our purpose, the corrosive effects of corruption are much more problematic for developing countries particularly those in Africa, as it comes at a higher cost for those that are poor. With this understanding in mind, we review the ranking of selected African countries in the Corruption Index of Transparency International (CITI), which measures the perception of corruption as seen by business people, risk analysts, and the general public. The CITI ranges between 10 (highly clean) and zero (highly corrupt), Using the CITI as a proxy for the stance of governance, some valuable information on the governance performance in 17 African countries might be obtained by tracing their rating in this index from 1998 to 2002 (Table 9).

18. Gray and Kaufman (1998), "Corruption and Development", *Finance and Development*, March.

Table 9 - Trends in Corruption in 17 African Countries

	Improving	Stable	Deteriorating
High (>=5)	Namibia	Botswana Tunisia	Mauritius South Africa
Medium (3-4.9)	Ghana	Egypt Senegal	Malawi Zambia Zimbabwe
Low (<3)	Cameroon Tanzania	Côte d'Ivoire Nigeria	Kenya Uganda

Note: Nigeria deteriorated till 2001 but improved in 2002.
Source: Authors' computation based on the CITI.

The trends reported in this table suggest that 7 out of the 17 fully rated African countries have experienced an increase in corruption, which might indicate deteriorating governance. The situation seems particularly difficult in Kenya and Uganda. With indices of 2.6 and 2.5 respectively in 1998, Uganda and Kenya recorded indices of 2.1 and 1.9 in 2002, which is a sharp decline over the previous years. This evolution may be a reflection of the fragile political situation and the weak public economic management in these two countries. The decline in the indices for Malawi, Zambia and Zimbabwe, over the period 1998 to 2002 is also a matter of great concern.

Only four countries, Namibia, Ghana, Cameroon and Tanzania are improving. The CITI shows also an encouraging trend in Ghana, where the situation gradually improved, with an index climbing from 3.3 in 1998 to 3.9 in 2002. This positive evolution is certainly related to the successful democratisation experienced by this country in recent years. It is also interesting to cite the case of Botswana, which is ranked at a higher level compared to several European countries (with a rating of 6.4 in 2002).

This last observation notwithstanding, the brief discussion above suggests on the whole that African governments still need to work at improving issues related to the prevalence of corruption and bad economic governance. This is necessary not only to improve their image and therefore attract more foreign aid and capital, but also to enhance the credibility of their poverty reduction programmes.

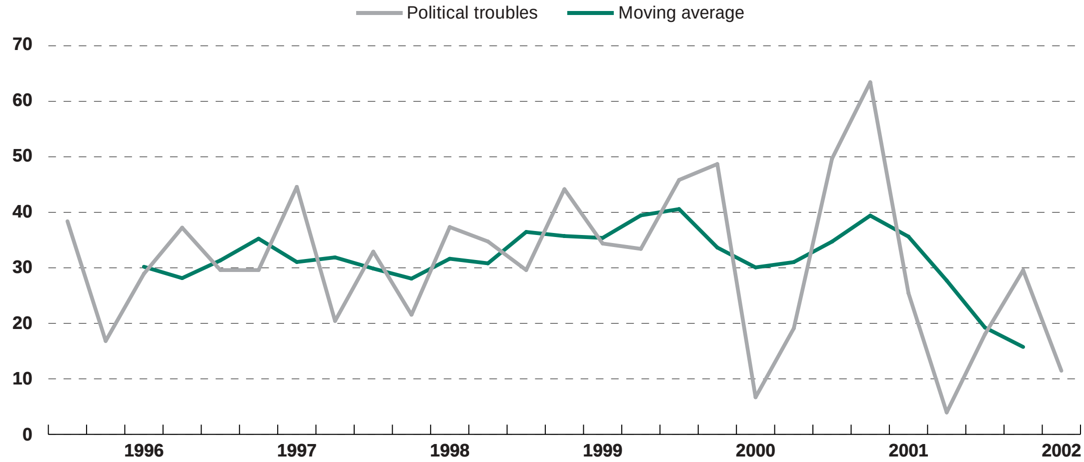
Political Developments

The majority of the countries covered in this report now operate under stable political environments. Political conditions in these countries have significantly improved from the late 1990s even though the situation in some countries (Algeria, Nigeria, Côte d'Ivoire, Ethiopia and Zimbabwe, to mention only countries covered in the African Economic Outlook) still looks fragile. Overall, Western Africa has been the least performing region in 2002, while Central Africa has enjoyed significant progress, with the signing of peace accords in Angola and the DRC.

Our political trouble index (reported in the statistical appendix) suggests that heavy political troubles persist in Algeria, which has by far the largest incidence in the sample. This takes the form of political violence, which greatly affects economic performance especially in a country facing severe economic conditions and needing urgent economic reforms. However, political troubles seem to be diminishing from the beginning of 2001 (with a new peak marking the legislative elections of May 2002). This is clearly visible in Figure 13 (where the green line shows a yearly moving average of the incidence of political trouble).

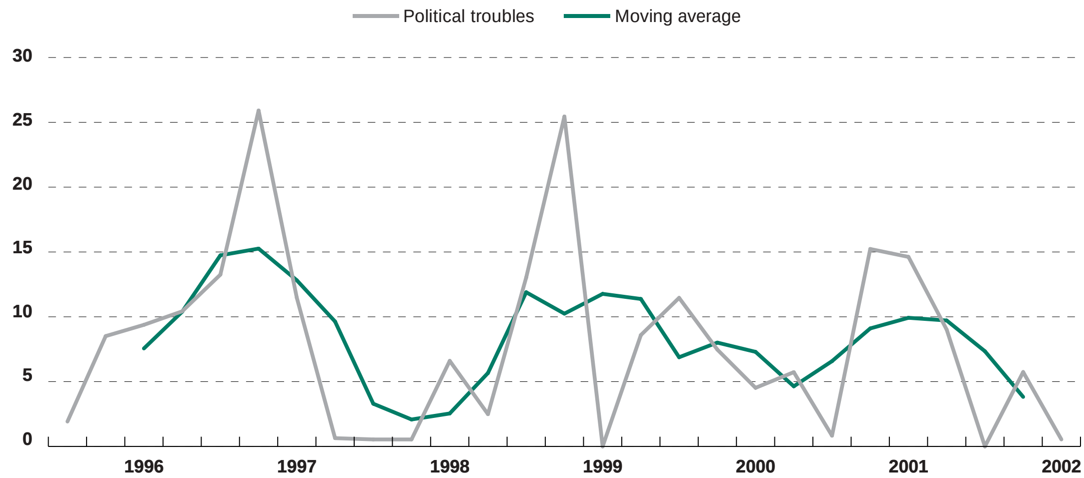
In Nigeria, political troubles, which were very frequent before the election of President Obasanjo in 1999, have been diminishing (Figure 14). However, a new political disturbance occurred in 2001 in the wake of heightened communal and ethnic violence, which has undermined the authority and activity of the

Figure 13 - The Political Trouble Index for Algeria



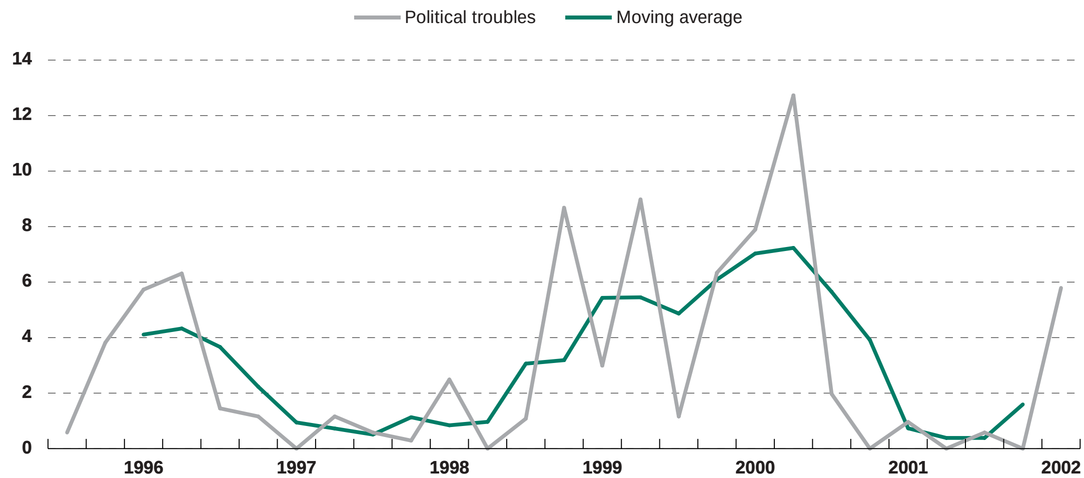
Source: Statistical Annex.

Figure 14 - The Political Trouble Index for Nigeria



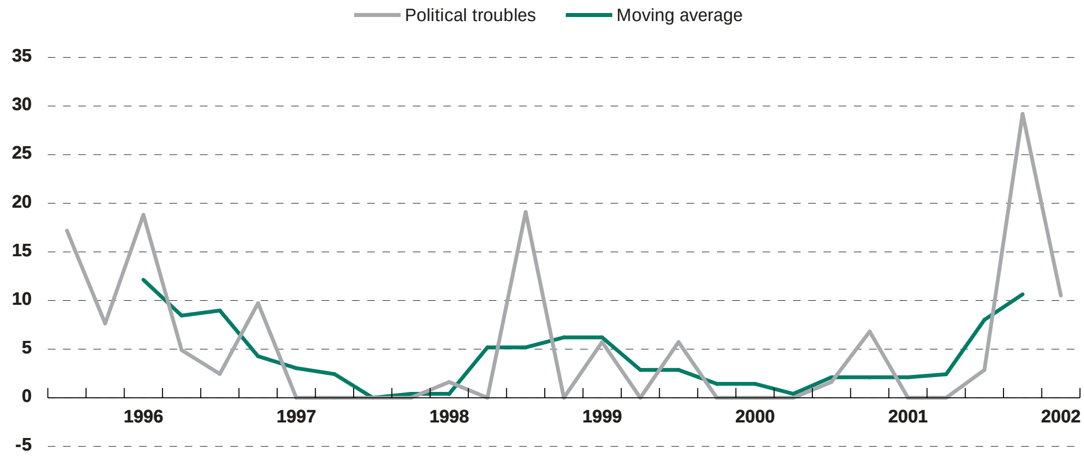
Source: Statistical Annex.

Figure 15 - The Political Trouble Index for Côte d'Ivoire



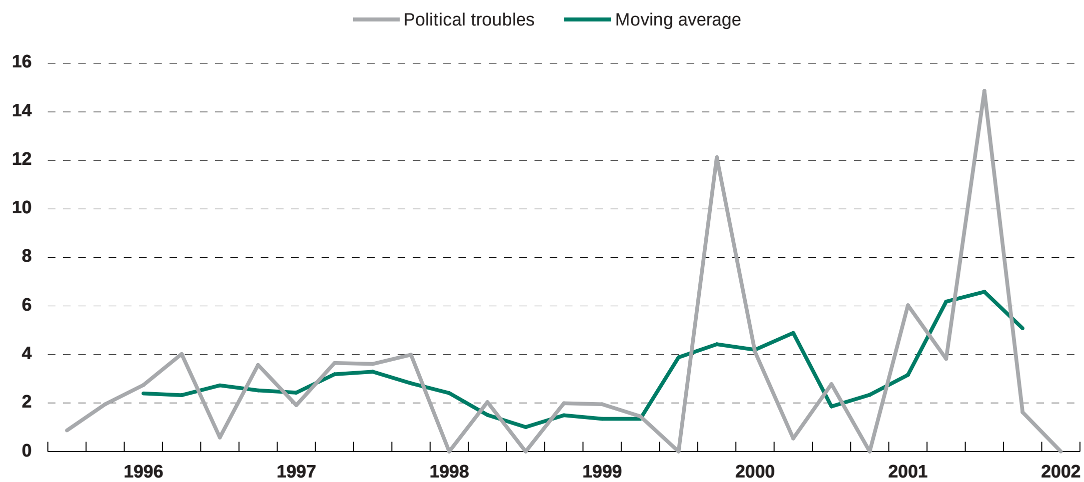
Source: Statistical Annex.

Figure 16 - The Political Trouble Index for Ethiopia



Source: Statistical Annex.

Figure 17 - The Political Trouble Index for Zimbabwe



Source: Statistical Annex.

government (see Nigeria country note). There is a re-emerging religious confrontation, between the Northern States, which have adopted Sharia Law, and the Federal government.

The already fragile political situation in Côte d'Ivoire has been exacerbated by an attempted military take over in September 2002. Currently the country is virtually divided between the rebel held North and West and the South, which is under the control of the incumbent government. Negotiations are on-going to resolve the impasse by the ECOWAS Monitoring Team (EMT). Progress is slow and a lasting solution seems very distant (Figure 15).

There are several long-term economic implications of the current political impasse. The rebel held North/West, has had its farming activities brought to a standstill. The impact of this on the country's largest foreign exchange earner, cocoa (predominantly grown in the western part of the country), could be incalculable and the spill over effects to several countries in the sub region could be massive. Landlocked countries Burkina Faso and Mali, which depend on Côte d'Ivoire's harbours as routes for the imports of manufactured products, will suffer severely and Côte d'Ivoire itself will also record revenue losses. With a large service sector (about 50 per cent of GDP), relocation of major multinational corporations and other corporate bodies can greatly affect its financial sector through capital flight.

There are also re-emerging political troubles in Ethiopia, linked to an ethnic conflict between Afars and Somalis. The evolution of our political trouble index suggests that, if this new conflict continues, Ethiopia is likely to fall into a quite difficult political situation, similar to the one observed in the past (Figure 16).

In Zimbabwe, political tensions created by the hard-line government policy particularly on land ownership have aggravated an already tense political situation. The opposition parties have disputed the March 2002 elections. The economic crisis is heightened by a food shortage due to the severe drought affecting the whole Southern region. Since the election, the government has suppressed most forms of opposition in the independent press, labour movement and political parties. The growing discontent and the continued hard-line stance of the government could have serious repercussions on Zimbabwe's economy. The political difficulties in Zimbabwe, particularly the issue of land reform and expropriation of white farms, could also have serious regional economic consequences (Figure 17).

Summary and Conclusion

Overall, 2002 has not been favourable to Africa, but this is less due to the international environment than to domestic issues. Certainly, the downturn in economic activity in 2001, which was not followed by the expected recovery in the OECD area, had a negative impact on the business cycle in Africa, both directly through a slowdown in the volume of markets for non-traditional African exports, and through downward pressures on commodity prices. However, not all commodity prices fell; in particular, the cocoa market experienced a steep upturn, much steeper than expected a year ago. Also, the oil market and the gold market were fairly favourable to African exporters of these materials. Moreover, for the first time since the 1990s, ODA granted by OECD countries to Africa has modestly risen, and should continue growing in the years to come, given in particular the pledges made by the European Community and the United States. Among domestic difficulties, Southern Africa was affected in 2002 by the ongoing crisis in Zimbabwe, the same policies being implemented as last year, in absence of political change, with the same results; Eastern Africa suffered from the political crisis in Madagascar; and Western Africa was severely hit, from 19 September 2002, by the new episode of political crisis in Côte d'Ivoire. Northern Africa suffered from the adverse impact of political and security issues in the Middle East, which have particularly affected Egypt. Also, it should be noted that large parts of Southern Africa and Eastern Africa were hit by a severe drought, which in several countries led to a food crisis, with adverse impacts both on poverty and on the macro-economic framework.

On privatisation, the African record is mixed. Privatisation plans, which started only in the 1990s in many countries, have frequently been delayed, although they were in most cases considered as part and parcel of the economic reform agenda. Nevertheless, according to World Bank data, African countries have already privatised some 2700 public enterprises, including some 270 pending deals. In some countries, such as Mozambique, where initially the public sector was overwhelming, many enterprises, in all kinds of activities, have been privatised. In others, such as Algeria, the privatisation process has long been delayed. The proceeds of privatisation have not been large, around $8 billion in total, equivalent to 1.5 per cent of the African GDP. This is principally due to the initially weak financial situation of the privatised companies. Nevertheless, in several instances, the privatisations had significantly positive consequences on public finances, because they were a pre-condition to reduced explicit and implicit subsidies. For example, in Burkina Faso, savings on subsidies and new tax collections on the privatised companies have improved the fiscal balance by an amount equivalent to 2 per cent of GDP. One major issue which persists concerns public utilities, for which the governments often preferred concession and leased contracts to the sale of shares or assets. In the electricity sector, in particular, several occurrences of failure have been observed, for lack of clear concession contracts or difficulties in implementing them. There is also a clear need for strengthening the regulatory framework. Another issue concerns the social consequences of privatisations. Again in the sector of public utilities, privatisations have not always reduced the prices charged to consumers, while the service coverage has not yet been improved. Similarly, in the labour market, negative consequences have been observed due to retrenchments, while the creation of new jobs in other sectors that may be expected from improved economic efficiency is still waiting. Overall, the African privatisation process, which is rather recent and has often been delayed, has principally led so far to the usual short term costs, while longer term benefits are still to come.

On the poverty front, the most recent information and analysis suggest that the African continent will not meet the MDGs. There is however a clear divergence between Northern Africa, where MDGs will be met for a vast majority of the population, and sub-Saharan Africa. One major reason is the still very moderate growth performance of Africa. However, more needs to be done also to improve social policies and increase the poverty reduction impact of growth, which is much smaller in sub-Saharan Africa than in Northern Africa. Improving governance is required to achieve progress on this account.

This need for improved governance is more and more at the forefront of policy debates in Africa. In particular, achieving good governance is considered in the NEPAD initiative as one of the most pressing issues, on which African governments can and need to make progress. It is expected that the coming African Peer Review Mechanism, which will start in 2003 with a dozen of countries, will provide the necessary tools to develop a better assessment of governance in Africa, and will contribute to help African governments to improve collectively their governance structures. Meanwhile, several African countries still face big governance issues with adverse consequences on political stability and on poverty. Recent positive evolutions, such as the resolution of the political crisis in Madagascar, the peace accords in DRC and Angola, or the political change in Kenya opened by the democratic presidential elections held in December 2002, point however to possible solutions of these issues.

Part Two

Algeria

key figures

• Land area, thousands of km²	2 382
• Population, thousands (2001)	30 841
• GDP per capita, $ (2001)	1 774
• Life expectancy (2000-2005)	...
• Illiteracy rate (2001)	31.2

Algeria

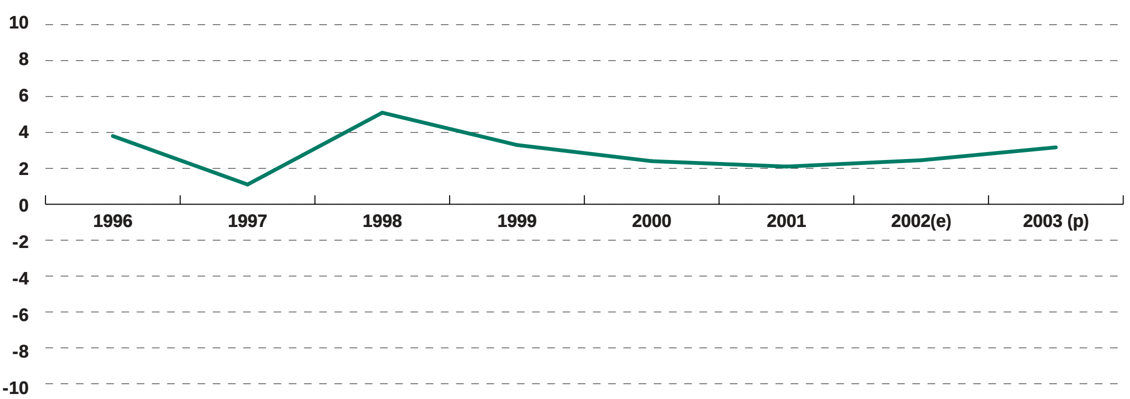
OIL AND NATURAL GAS DOMINATE the economy, providing a third of GDP, 97 per cent of exports and two-thirds of the government income. The state-owned industrial sector is meanwhile inefficient and unemployment high, at nearly 30 per cent. Standards of living are falling.

Between 1995 and 2000, economic growth was unremarkable and below potential, at an average 3.3 per cent a year. A three-year plan launched in 2001 to help revive the economy and push economic reforms should produce growth of 2.6 per cent in 2002 and 3.7 per cent the following year.

Economic progress over the next few years will depend on improvement in the political and social climate

After rising to double figures in the mid-1990s, inflation was reduced to 0.3 per cent in 2000. The 2001-04 revival plan is expected to push it up to 4.4 per cent in 2002, after which it should fall to 3.8 per cent in 2003. Economic progress greatly depends, however, on the political situation, which is very unstable. That and lawlessness are driving down the standard of living, stifling private initiative and slowing economic reform.

Figure 1 - Real GDP Growth



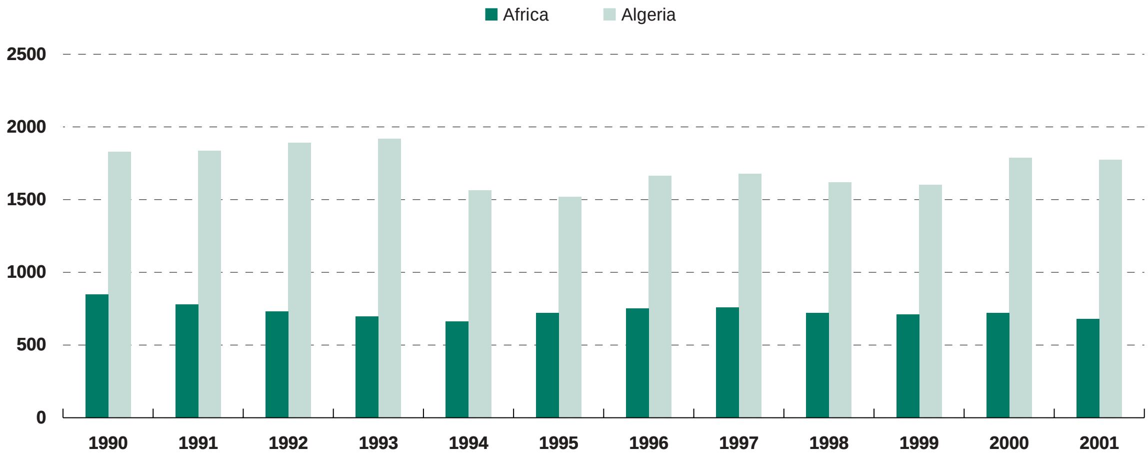
Source: Authors' estimates and predictions based on IMF data.

Recent Economic Developments

A 50 per cent drop in Algeria's terms of trade in the wake of the oil/gas price collapse of 1986, rocked the economy, which is heavily dependent on these prices. In response, the government embarked in 1988 on a macroeconomic stabilisation plan and structural reforms to pave the way for a market economy. This key programme was halted by the 1991 political crisis. The worsening of the country's economic and financial position in 1994 led to a reform programme backed by the IMF and the World Bank and negotiations to reschedule external debt.

The government launched a three-year Economic Revival and Support Plan (PSRE) in 2001 to encourage growth in an economy whose modest performances in recent years, along with the poor social and political situation, have produced a vicious circle which is pushing standards of living down even further.

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



Source: Authors' estimates based on IMF data.

Volume GDP rose 2.1 per cent in 2001, down from the previous year's 2.5 per cent, while unemployment inched towards 30 per cent.

Growth varied by sector. Agriculture's share of GDP was 9.2 per cent (8 per cent in 2000) and grew 18.7 per cent over the year (compared with a drop of 4.3 per cent in 2000). This was due to good weather and to promising first results of the National Agriculture Development Plan (PNDA) launched in 2000 to develop land by concession, give technical help to farmers and support them financially through the National Fund for Agricultural Development and Management (FNDRA).

Non-oil/gas industry's GDP share was 7.2 per cent (up from 7.0 per cent in 2000). The sector's small 0.9 per cent growth on the year was mainly thanks to private sector growth of 4.5 per cent, while the state sector declined by 0.7 per cent. The private sector's performance reflected the growth trend of the previous three years; its share of non-oil/gas GDP grew from 65 per cent in 1994 to 77 per cent in 1999.

The state-owned industrial sector, which is a heavy burden for the government, is hampered by obsolete machinery, low productivity and under-use of capacity and lack of competitiveness in the face of imports.

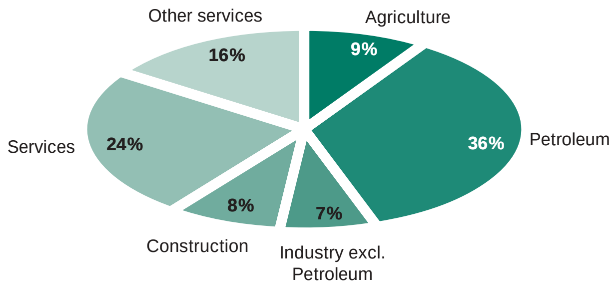
Oil and natural gas production, which had risen substantially since 1986, fell 2.8 per cent against 2000 and hydrocarbon exports dropped 5.1 per cent.

The share of oil and gas in GDP at current prices decreased to 35.5 per cent (from 40 per cent in 2000), mainly because world prices fell to an average $24.80 a barrel (from $28.50 in 2000). The country's energy development strategy will probably be hit by European Directive 98/30/EC on liberalising the natural gas market. The new spot system of short-term contracts and freedom to choose suppliers replaces the old "take or pay" arrangement of long-term contracts with exporting countries that enabled heavy investments made in the natural gas sector to be recouped.

This strategic sector continues to benefit, however, from determined investment and development by the government. Partnership deals with foreign firms restored oil reserves in 2000 to their 1970 level and provided incentives for doubling secondary and tertiary recovery.

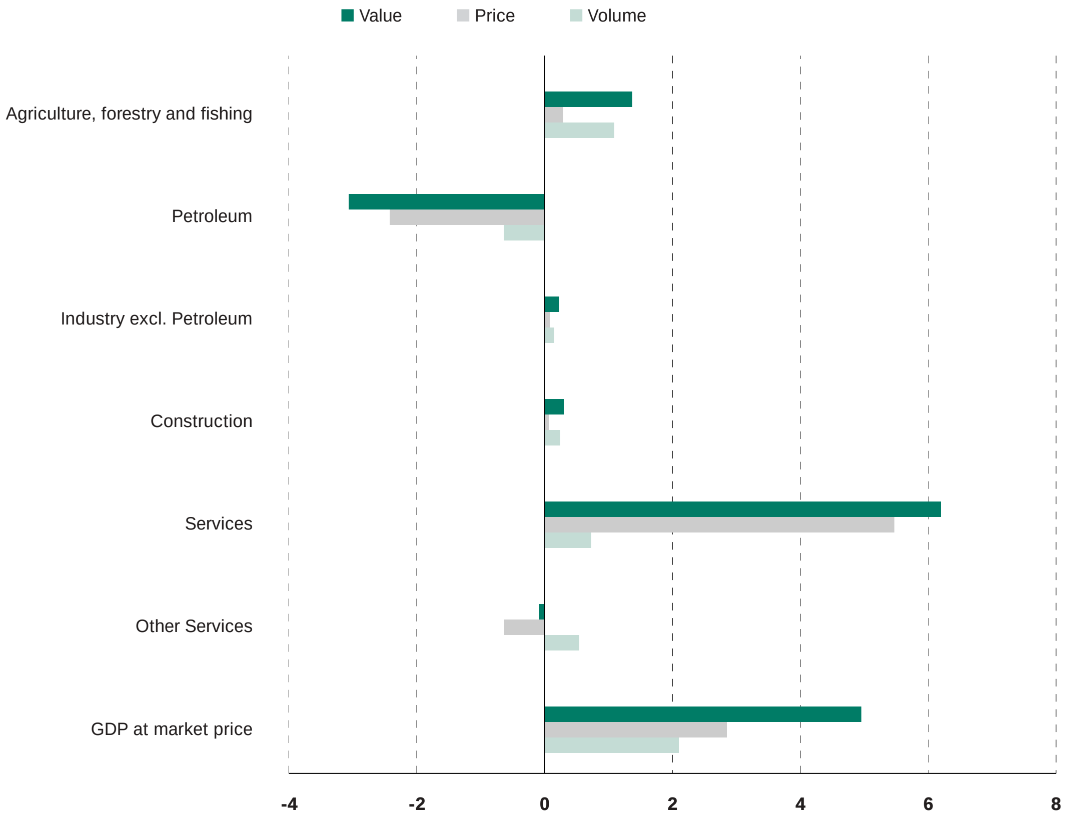
Construction contributed 8.5 per cent to GDP in 2001 (8.2 per cent in 2000). The sector itself grew only by 2 per cent. The main public works activity during the year included reviving projects linked with the east-west motorway, strengthening and upgrading the national road network, ending

Figure 3 - GDP by Sector in 2001



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

Figure 4 - Sectoral Contribution to GDP Growth in 2001



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

the isolation of remote towns and resuming sea and airport construction.

Housing deliveries and starts were down in the first half of 2001. In the second half, only 53 173 units were delivered (against 75 340 year-on-year in 2000), but starts grew 61 per cent to 87 208 units (up from 54 089 over the same period of 2000). The sector will be key to the government's economic revival scheme, mainly due to the number of jobs it creates.

The services sector grew by a steady 3.8 per cent in 2001 (+3.1 per cent in 2000) and its share of GDP rose slightly to 21.8 per cent (from 20.5 per cent in

2000). Transport, its main component, was sluggish. The economic revival plan provides for extensive modernisation of this sub-sector through partnerships, franchises and substantial investment, including pumping 54.6 billion dinars ($700 million) into railway development and electrification and 45.3 billion dinars into 25 projects involving roads, ports and airports.

A favourable world oil market boosted savings to 33.1 per cent of GDP in 2000 but they dropped back to 18.4 per cent in 2001. Final consumption in 2001 increased to 58.6 per cent of GDP (from 55.2 per cent in 2000). Domestic investment rose to 22.7 per cent of GDP (21.3 per cent in 2000) thanks to the revival programme.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**30.2**	**28.1**	**24.2**	**27.2**	**27.8**	**28.2**
Public	7.2	5.9	7.9	8.5	8.8	8.9
Private	23.0	22.2	16.3	18.7	19.0	19.3
Final consumption	**72.6**	**68.7**	**55.7**	**58.6**	**57.3**	**55.9**
Public	17.0	17.1	13.7	14.9	14.5	14.1
Private	55.6	51.6	42.0	43.6	42.8	41.8
External sector	**-2.8**	**3.2**	**20.1**	**14.2**	**14.9**	**15.9**
Exports	26.0	27.4	41.7	36.6	38.1	39.4
Imports	-28.8	-24.2	-21.6	-22.3	-23.2	-23.5

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

Macroeconomic Policy

Fiscal and Monetary Policy

The Algerian economy is highly dependent on oil and gas, which are 97 per cent of total exports, and provide almost two-thirds of government income and over a third of GDP.

To cope with this distortion, to balance the budget and to reduce public debt, the government set up a "revenue regulation fund" in June 2000 using surplus tax revenue that overshot budget targets because of a rise in oil prices. The fund totalled 232.4 billion dinars ($3 billion) in 2000 and 123 billion dinars ($1.57 million) in 2001.

Budget revenue rose 22.5 per cent in 2001 over 2000, while expenditure increased 30.9 per cent mainly due to higher capital outlay.

The marked improvement in government finances in 2000, combined with better oil and gas prices, continued in 2001, when there was an overall surplus equivalent to 3.4 per cent of GDP, and into 2002, when it was expected to be 5.3 per cent. This good performance contributed considerably to implementation of the revival programme.

In 2001, the programme had a budget of 525 billion dinars – 45 billion to support reforms, 65.3 billion for agriculture and fishing, 114 billion to boost local development, 210.5 billion for major infrastructure work and 90.2 billion for human resource development. The programme was slowed down by the serious flooding of 10 November 2001 as nearly a third of its budget was diverted to rebuild the damaged areas

The monetary situation improved in 2001 due to better public finances and consolidation of the country's external position. The larger foreign exchange reserves, reflected in the growth of the Bank of Algeria's aggregate external net assets (1 286.4 billion dinars at the end of December 2001, compared with 774.3 billion on the same date in 2000), strengthened the overall financial situation, especially as the aggregate was the only source of increase in the money supply.

Table 2 - Public Finances (percentage of GDP)[a]	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants[b]	**30.0**	**30.0**	**38.7**	**35.0**	**36.3**	**37.8**
Taxes	29.7	29.5	38.3	34.6	35.9	37.3
Other revenue	18.3	19.9	30.1	25.7	27.0	28.4
Grants	0.0	0.1	0.0	0.0	0.0	0.0
Total expenditure and net lending[b]	**31.4**	**30.5**	**28.9**	**31.6**	**31.1**	**30.4**
Current expenditure	24.1	24.6	21.0	20.7	19.8	18.9
Excluding interest	20.9	20.6	17.1	17.2	16.6	16.0
Wages and salaries	9.4	9.0	7.1	7.1	6.9	6.7
Interest payments	3.1	4.0	4.0	3.5	3.2	2.9
Capital expenditure	7.2	5.9	7.9	11.0	11.3	11.5
Primary balance	**1.7**	**3.5**	**13.8**	**6.9**	**8.4**	**10.3**
Overall balance	**-1.4**	**-0.5**	**9.8**	**3.4**	**5.3**	**7.4**

Note: a. "Other revenue" = oil and gas taxes.
b. Only major items are reported.
source: Authors' estimates and predictions based on IMF and domestic authorities' data.

This growth of the monetary base was offset by greater treasury deposits in the Bank of Algeria – a net 275.3 billion dinars at the end of December 2001, after climbing to 416.8 billion at the end of June that year. The drop in the second half was caused by government spending to repay the loans of state-owned banks, whose borrowing from the Bank of Algeria fell from 102.9 billion dinars at the end of June to zero at the end of December.

The monetary base grew strongly in this second half due to a 14.5 per cent rise in the volume of paper money and higher deposits by banks and financial institutions at the Bank of Algeria. To curb the inflationary pressure of this, the Bank of Algeria revived the use of bonds as a monetary policy instrument. The over-supply on the interbank market also pushed down negotiated interest rates.

The money supply (M2) rose sharply by 23 per cent in 2001 due to the strong growth of dinar term deposits and foreign currency deposits resulting from higher financial savings of oil and gas companies.

After being reduced to 0.3 per cent in 2000, inflation rose again in 2001 to 4.2 per cent because of the increase in the national guaranteed minimum wage (SNMG) from 6 000 to 8 000 dinars and the recapitalisation of the banks which created excess liquidity in the economy. The psychological effect of the April 2001 launch of the economic revival plan in April might also have played a part.

Algeria has a regulated floating exchange rate. The dinar is only convertible for current transactions and only on the interbank market, where the Bank of Algeria is about the only supplier of foreign currency since it looks after the oil and gas revenues. Foreign currency reserves were $17.9 billion (the equivalent of 18 months of imports) at the end of 2001 (up from $11.9 billion at the end of 2000) and this further steadied the interbank exchange market. With demand fairly stable, the increased supply of foreign currency in both years helped stabilise the real effective exchange rate in 2001, with the euro at 69 dinars.

External Position

Exports of goods and services – almost entirely oil and gas – were estimated in 2001 at $20 billion ($22.2 billion in 2000). Imports rose 6.6 per cent to reach nearly $10 billion. The trade surplus of $10 billion ($13 billion in 2000) should increase in 2002 and 2003.

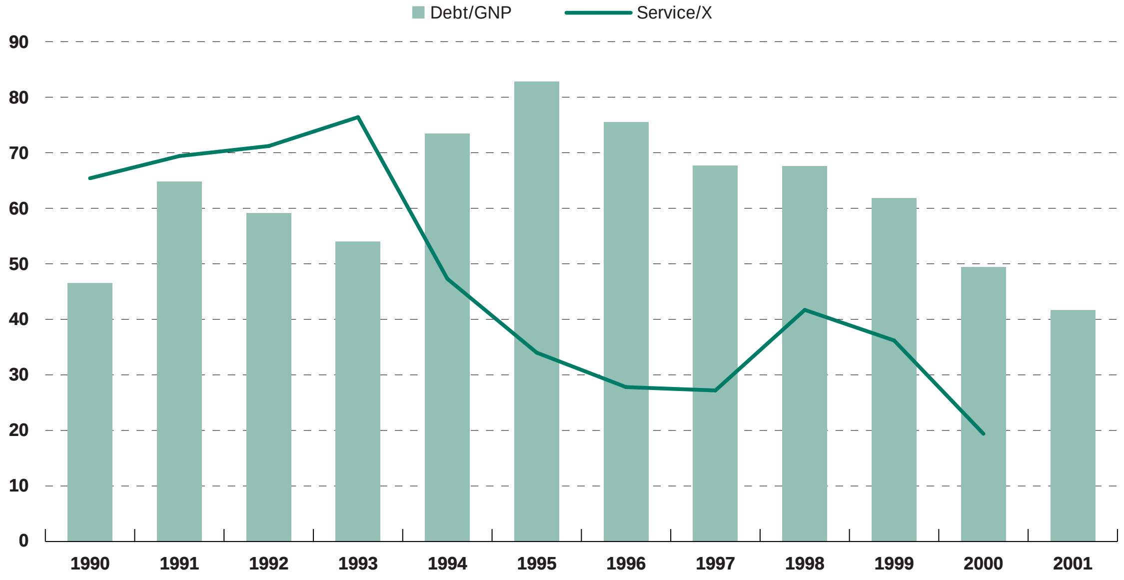
The consolidated current account balance remained strong, with a $6.7 billion surplus ($9 billion in 2000), but the capital account showed a deficit, though less than the one in 1999-2000 because of higher foreign direct investment.

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade balance	0.1	7.1	23.3	17.0	17.8	18.9
Exports of goods	24.4	25.9	40.0	34.9	36.4	37.7
Imports of goods	-24.3	-18.9	-16.7	-17.9	-18.6	-18.9
Services balance	-3.1	-3.9	-2.7	-2.8		
Factor income	-5.2	-4.8	-5.0	-3.1		
Current transfers	2.6	1.7	1.5	1.2		
Current account balance	**-5.6**	**0.1**	**17.1**	**12.4**		

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)



Sourc: World Bank.

The external debt improved with a new fall to $22.6 billion at the end of the year (from $25.3 billion at the end of 2000), only 1.2 per cent of it short-term. Another good sign was an increase in the proportion of soft loans in all medium and long-term debt to 78.7 per cent. The debt service ratio rose to 22.2 per cent (from 19.8 per cent in 2000).

Structural Issues

The government launched economic reforms in the late 1980s to boost growth and diversify the economy as part of the transition from a socialist to an open market economy. Restructuring the state-owned industrial sector was and is the key. Since the structural adjustment programme began in 1995, the macroeconomic and financial situation has greatly improved but growth is still slow and the state-run industries are still a heavy burden for the government.

The industry and restructuring ministry says nearly $15 billion have been poured into the state sector and the economic revival programme has earmarked another $7 billion to complete the restructuring to prepare it for the association agreement with the European Union (EU) that comes into full effect in 2012. This agreement, signed in 2001, provides for gradual dismantling of tariffs on all industrial, agricultural and fishing products from EU countries. It came into effect at once for industrial goods and will gradually be introduced for semi-processed and finished goods. Negotiations about trade in services will continue after Algeria joins the World Trade Organisation (WTO), probably by 2004.

As well as the association agreement, tax reform has streamlined customs duties into three rates (5.15 and 30 per cent) and aims to dismantle them gradually along with the provisional surtax imposed to support national production. The goal is to boost foreign trade, help set up the free trade zone with the EU and allow Algeria to join the WTO. The 2001-04 revival programme has budgeted 20 billion dinars for modernising the tax system, including the customs reforms.

The main trade union, the UGTA, and the heads of private and state-sector firms oppose many of the clauses of the EU association agreement. They say the economy is not ready for such opening up and that without protection it will founder, worsening unemployment and social unrest. The government is also accused of not consulting its social partners enough in negotiating the association agreement.

Reform of state firms began in the early 1990s. Between 1991 and 1996, they were gradually given legal and financial autonomy and a programme of financial stabilisation was launched. Conversion of loans reached 4 per cent of GDP (357 billion dinars) over the period. In 1997, a total of 187 billion dinars (6.8 per cent of GDP) was spent on stabilising the accounts of state food import firms, the national railway company (SNTF) and the electricity and gas utility (Sonelgaz). The Stabilisation Fund (set up in 1991 and abolished in December 1996) handed out 110 billion dinars (1.3 per cent of GDP) to state firms.

Restructuring was speeded up in December 1996 with the regrouping of the so-called State Economic Enterprises (EPE) into 11 sectoral holding companies and imposition of strict bank control to reduce the growing amount of debt they were incurring and gradually to restore their finances. The holding companies were to manage these government assets, ensure their restructuring and if necessary prepare them for privatisation, joint ownership or even liquidation. In December 1997, 76 EPEs had been broken up and the government issued a list of 250 to be privatised.

After the stabilisation plan and structural adjustment programme backed by the IMF, the government began privatising in April 1996 with a first round of 1 300 local state-owned firms (EPL). By April 1998, 827 had been liquidated and 464 sold off to their employees. From then until 2000, no further significant progress was made, except for the disbanding of nearly 1 000 EPLs with the loss of about 36 000 jobs.

In 2001, the biggest EPE, the El Hadjar steel complex (SIDER), was privatised. Deep in debt by the end of the 1990s, it had been financially restructured and its workforce cut from 22 000 to 12 000. It was sold to the Indian steel firm Ispat, which took 75 per cent of its capital. In December 2000, the national detergent and cleaning products firm ENAD signed a partnership deal with the German firm Henkel, which took 60 per cent control. The government also sold a second GSM mobile phone licence to the Egyptian company Orascom.

The government showed a clear desire in 2001 to open up to the private sector by amending laws about investment, telecommunications, electricity and mines. A National Investment Council and National Investment Promotion Agency (a one-stop window to help potential investors) were set up. Plans were also made for a partnership between the state-owned Air Algérie and the privately-owned Khalifa Airways.

New rules were announced in August 2001 to replace those issued in 1995 about the organisation, management and privatisation of EPEs. The public holding companies were replaced by 28 shareholding management companies (SGP), the National Privatisation Council was renamed the State Shareholding Council and a committee to monitor privatisation operations was set up. Employees of firms being completely privatised were to be given 10 per cent of the shares free of charge, with a 15 per cent discount on any they bought.

Privatisation in Algeria is tough going however because of red tape, employee resistance to change, the inefficient banking and phone systems and the tricky problem of legal title to company assets and more broadly to land. The government seems determined to move forward with it, but progress is also slowed by the difficult social and political situation over the last decade.

The government has opened up the entire economy to privatisation, including banks, agriculture, tourism, telecommunications and industry. The last holdout seems to be the energy sector (oil, natural gas and electricity). A plan in 2002 to offload the oil and gas firms was strongly opposed by the trade unions. The plan, which would open up the sector and restore the government's regulatory role, includes setting up two independent bodies – an oil and gas regulation authority and a national agency to develop oil and gas resources (ALNAFT).

In October 2002, the ministry for shareholding and investment promotion announced a new round of privatisation to speed up the process. This would, within the first six months, involve selling off 70 small and medium-sized firms, with 250-300 workers each, by grouped bidding.

Reform of the banking system is another big government project. Since the 1990 Money and Credit Law, privately-owned national and foreign banks have been allowed to operate, but they did not do so until 1997. The number of banks rose from six in 1995 to 31 in 2002, with six state-owned banks accounting for 90 per cent of activity. The sector's rehabilitation between 1991 and 1999 cost the government a huge 45 per cent of 1999 GDP, with another 8 per cent of GDP still budgeted for it. The economic revival plan also calls for the sector to be technically upgraded, its payments system modernised and supervision improved.

The four-year-old Algiers Stock Exchange is still in its infancy, with dealings in only three stocks – the Aurassi Hotel, one of the city's biggest, the food-processing company Eriad-Setif and the leading state pharmaceutical firm Saidal – and one bond, the national oil and gas company Sonatrach.

Political and Social Context

After 30 years of firm state control, the youth demonstrations of October 1988, which were harshly repressed by the government, marked the end of the road for the one-party state and raised hopes of a democratic opening. Several political parties were founded and an independent and diverse media developed. These political upheavals, combined with the economic changes of the late 1980s, created instability, a rise in lawlessness and a sharp drop in the standard of living.

Abdelaziz Bouteflika was elected president in April 1999 amid much hope and anticipation by ordinary Algerians. Three years later, this had turned to disillusionment and the government was mired in controversy, mainly to do with the results of the national Civil Harmony Act and the stagnation of economic reform.

Parliamentary elections, held in May 2002 and strongly resisted by some political groups and part of the population, were won by the former sole political party, the National Liberation Front (FLN). Local elections, which were also challenged, took place in October 2002.

Governance reforms have included a new criminal code and code of civil procedure and a start on reforming the civil code. Reform of the civil service and strengthening local authorities was begun with an amended law on associations to encourage citizens to take part in local government.

A body (the Missoum Sibh Commission) was set up to look into reforming state structures and recently made its first recommendations, which were to decentralise. The country would be reorganised into seven administrative regions (CAR) each run by a governor *(wali)* and having its own capital and assembly. President Bouteflika also inaugurated in October 2001 a National Advisory Commission to Promote and Protect Human Rights.

The social and economic situation is in a vicious circle where weak economic activity, strong dependence on oil and gas exports and political instability and lawlessness have reduced the population's standard of living. Budget cuts in the 1990s, especially of social spending, and unemployment of nearly 30 per cent, have only made things worse.

The serious and long-standing social unrest has been fertile ground for Islamic fundamentalists. For lack of effective communication and good governance, the first wave of popular demands turned, in the early 1990s, into a radical revolt able to draw strong political support and preaching violent seizure of power. The extensive brutality against the population caused this approach to fail and the movement became openly terrorist throughout the 1990s.

Brutality continues, though more sporadically, but Islamic fundamentalism is now totally discredited among the population and the 2002 parliamentary and local elections reduced the moderate Islamists, operating legally, to a second rank political force. Both these elections were hampered by a significant voter boycott, mainly in the Kabyle region.

Cultural and identity demands, sometimes violently expressed, have added to purely social and economic ones in recent years. Unrest in the Kabyle in 2001 led to official recognition of the local tongue, Tamazight, in 2002. Demonstrators in other regions are violently making social and economic demands, mostly about housing, jobs and a fair share of public utilities (such as water, drainage and roads) as well as democracy and the rule of law.

Botswana

key figures

• Land area, thousands of km²	582
• Population, thousands (2001)	1 554
• GDP per capita, $ (2001)	3 726
• Life expectancy (2000-2005)	36.1
• Illiteracy rate (2001)	22.0

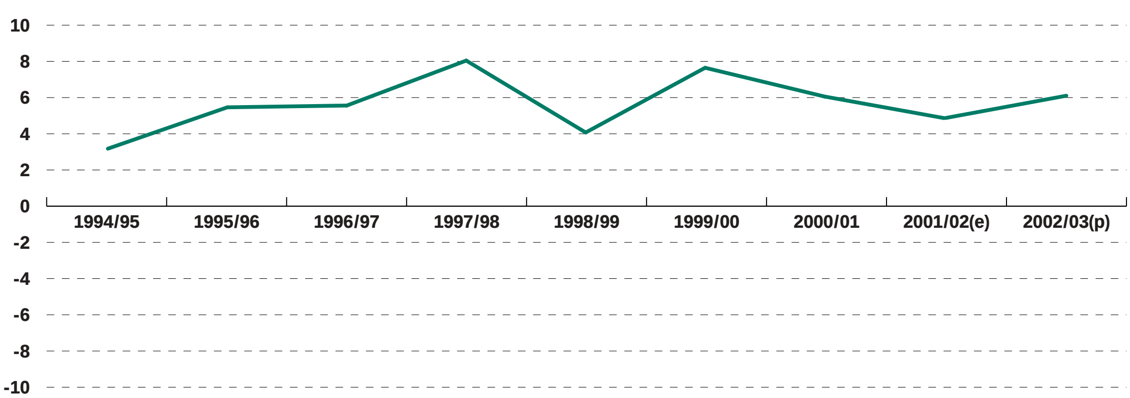
Botswana

BOTSWANA HAS GAINED A REPUTATION for its remarkable economic growth and prudent macroeconomic management. Over the past 35 years, the country has been transformed from one of the least-developed countries, with 90 per cent of the population subsisting in drought-prone agriculture and a per capita income of about $360, to a middle-income country with 50 per cent of the labour force employed in formal sector activities. Though 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. The country continues to put in place reforms and measures to strengthen the economy, as well as to diversify it away from its dependence on diamonds. Economic growth has been strong over the past few decades with real GDP growth recording 9.2 per cent in 2000/01. The economy is estimated to have grown at a slower rate, 5.1 per cent in 2001/02, and a growth rate of 6.1 per cent is expected for 2002/03, mainly due to the fact that diamond production is expected to reach a plateau.

Moreover, economic growth will be affected by the effect of the HIV/AIDS pandemic. Indeed, the country suffers from the highest rate of HIV infection in the world, with an adult prevalence rate estimated at 38.8 per cent. Furthermore, because of inadequate job opportunities, the incidence of poverty is still high and the country's income distribution is highly skewed. The education system, considered one of the best in Africa, is still not empowering citizens to access jobs in a highly competitive labour market. An important step in addressing these problems was the government's first drafting of the Botswana Poverty Reduction Strategy (BPRS), embarked in October 2001. The BPRS identifies several policy issues which aim to create the enabling environment for a sustained attack on poverty, such as enhancing capability, adopting an integrated policy approach to HIV/AIDS, and strengthening the leadership capacity of key public institutions at all levels.

Growth in Botswana will be affected by the levelling off of diamond production and the impact of HIV/Aids

Figure 1 - Real GDP Growth

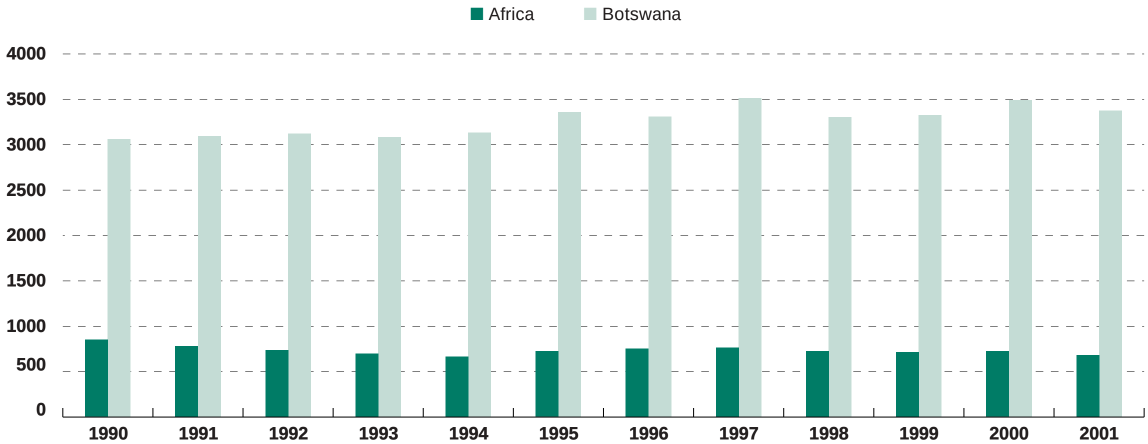


Source: Authors' estimates and predictions based on Central Statistics Office data.

Recent Economic Developments

Botswana registered a growth rate of 9.1 per cent in 2000/01. This was the result of an exceptionally strong performance in the mining sector, which grew by 19.6 per cent, basically reflecting the expansion of the Orapa diamond mine, commenced in 2000, which doubled its output. The real GDP growth rate is expected to be around 5.1 per cent during 2001/02 and 6.1 per cent in 2002/03 mainly due to a lower growth

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



Source: Authors' estimates based on IMF data.

rate of diamond output. This indicates that, despite some progress made in the diversification of the economy so far, there is still a need to push the diversification process further.

Mineral exploitation, mainly of diamonds, but also copper-nickel, soda ash, coal, a small amount of gold and other minerals, represents the country's economic base, accounting for 37 per cent of GDP in 2000/01[1]. The mining output is dominated by diamond production which contributes to 94 per cent of the total mining share in GDP. Debswana, an equal joint partnership between the international mining conglomerate, De Beers, and the Botswana Government, operates the country's diamond mines. Botswana's diamond industry endeavours to operate at capacity and to sell all its output, plus or minus small changes in stock for inventory control purposes. However, all diamond output is marketed exclusively by De Beers' London Based Diamond Trading Company (DTC), which regulates the supply to the market. Indeed, depending upon international market conditions, the DTC may impose quotas on sales, buying only a certain proportion of each producer's rated capacity. The remainder, if produced, is stockpiled and sold to the DTC when the market recovers sufficiently.

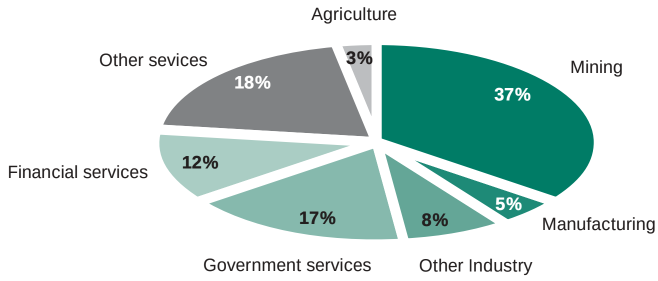
Botswana is the second largest volume producer in the world after Australia, and is the largest in terms of output value. Thus, it is especially prone to business cycles that lead to large swings in the demand for luxury goods. Botswana is also subject to swings in psychological factors that affect consumer confidence, such as the September 11 attacks.

The high value/weight ratio in the diamond output does not give Botswana an inherent competitive advantage in related downstream industries such as diamond cutting and polishing. Given the low transport costs relative to diamond value and the agreement to market all mine production through the DTC, local polishers do not even source rough diamonds from Botswana. The local diamond cutting and polishing activities have not achieved much financial success, as local workers have not attained internationally competitive productivity levels.

Major investment in treatment capacity combined with the additional production capacity, as well as the opening in October 2002 of the BK pipes at Damtshaa near Orapa, have brought the potential output slightly beyond 26 million carats. However, all the major known diamond pipes are now developed about as much as the

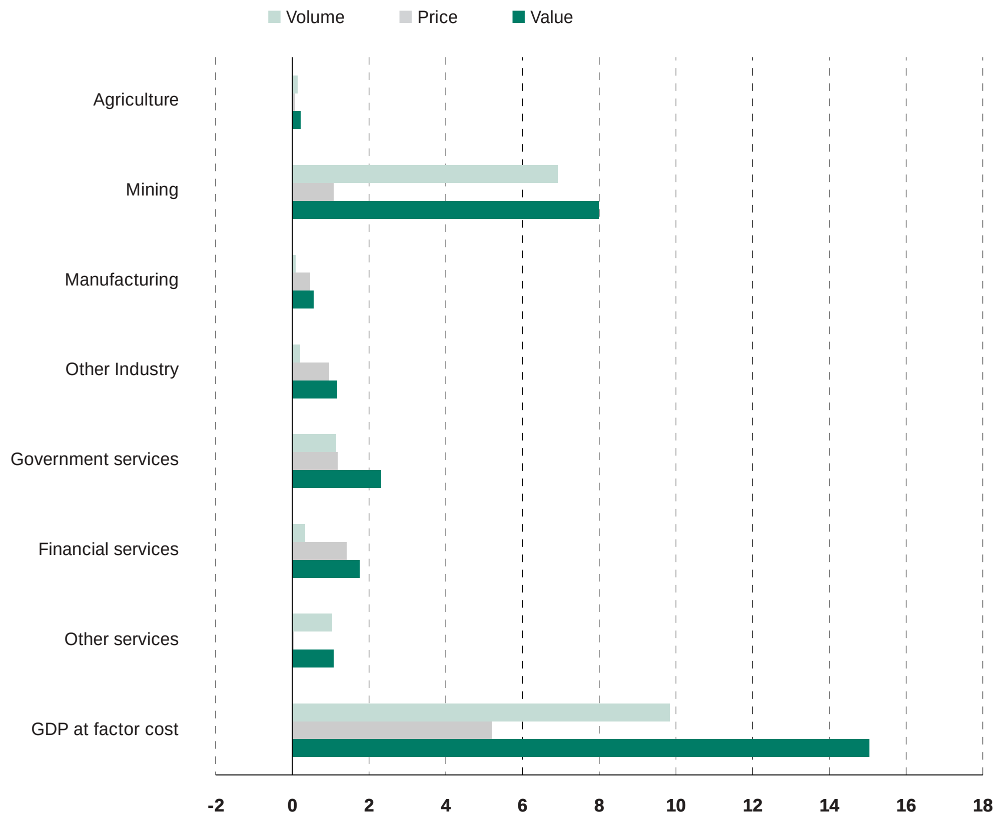
1. Despite the peak in mining production registered in 2000/01, the share of mining value added to GDP is on a decreasing trend. It varied between 39.2 per cent in 1989/90 to 33.4 per cent in 1999/00.

Figure 3 - . GDP by Sector in 2000/01



Source: Authors' estimates based on Central Statistics Office data.

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



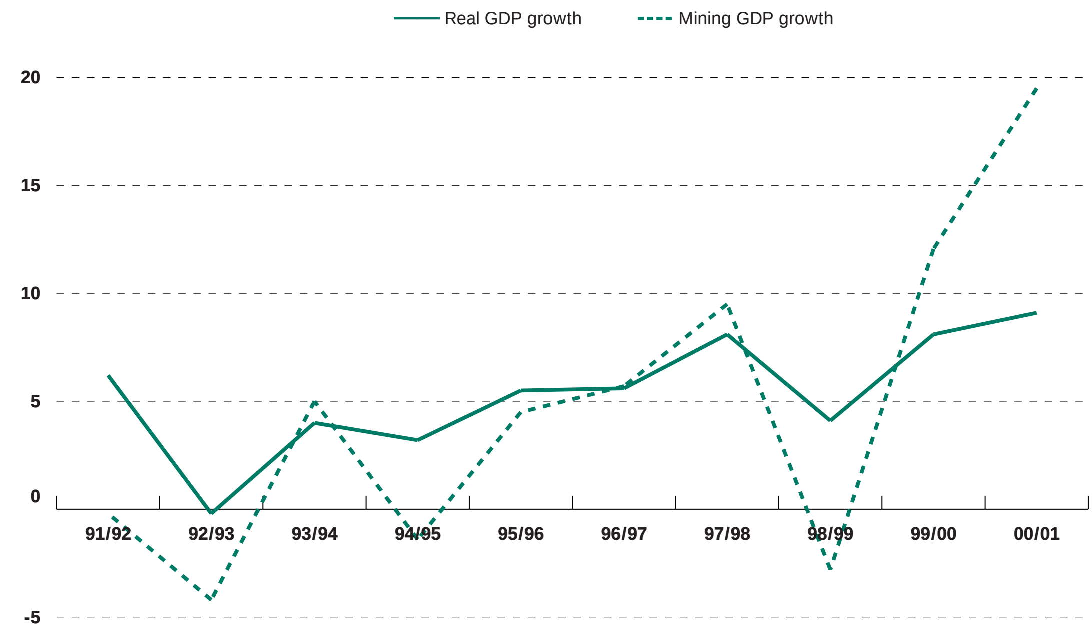
Source: Authors' estimates and predictions based on Central Statistics Office data.

authorities think they can be, and only smaller diamond pipes are likely to be developed in the future. Indeed, Debswana expects a tapering off and slight decrease in diamond production over the next ten years.

Copper and nickel output declined, in real terms, in 2000/01 while soda ash output increased sharply to almost double the 1999/2000 output. Moreover, in 2003, a new gold mine, operated by the Australian company, Gallery Gold, will be opened. Total exploitable gold reserves are estimated to be around 1 million ounces. However, it is unlikely that mining will register the same record growth in 2002/03 as it did for 2000/01.

In 2000/01, the non-mining sector's contribution to GDP declined from 66.7 per cent to around 65 per

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



Source: Based on Bank of Botswana data.

cent. The real growth in non-mining output fell from 5.7 per cent recorded in 1999/2000 to 4 per cent during 2000/01 (the slowest in the last six years). The slower growth of the non-mining sectors was mainly attributed to the poor performance of manufacturing and construction which fell to 1.6 per cent from 3.5 per cent and 2.4 per cent respectively in 1999/2000. Poor manufacturing performance reflected a slowdown in export orders of textiles and the impact of the closure of the country's main automobile assembly plant in early 2001, following the liquidation of the Motor Company of Botswana Hyundai Assembly Plant. The slowdown in construction was due in large part to government curtailing some of the excessive growth allowed in the run-up to the 1999 elections.

Despite the last few years' disappointing performances, the government considers the development of non-mining sectors as a crucial step towards diversifying exports away from mining and to promoting employment. In fact, although diamond mining is the main contributor to wealth, it is not labour intensive and accounts for about 3 per cent of total employment in the formal sector. Manufacturing accounts for only about 5 per cent of GDP, but employs about 10 per cent of those in the formal sector. In manufacturing itself, attention is increasingly directed towards the development of the textile industry on account of the fact that Botswana has qualified for the African Growth and Opportunity Act (AGOA) which allows textiles duty free access to the US market. While some companies are beginning to export under AGOA, the government is providing further incentives to the manufacturing industry through a concessionary company tax rate of 15 per cent.

Although partially reversed in 2000/01, the agricultural sector has experienced a pattern of negative growth, leading to a sharp decline of its share in GDP. In 2000/01, agriculture accounted for less than 3 per cent of GDP, a fall-off from its levels of about 5 per cent in the early 1990s. The sector suffers from major problems such as recurrent droughts, poor soils, lack of skills in the labour force, relatively low levels of investment – especially in irrigation – agricultural infrastructure and marketing, and the resistance of traditional farmers to adopting new, improved agricultural techniques. Such obstacles have hampered the ability of the sector to meet the national objectives of food security, alleviation of rural poverty and increase in agricultural output and productivity.

However, while the sector is currently of relatively minor significance to the macroeconomic structure of the country, its national significance stems from the fact that 50 per cent of the total population live in rural areas, and a significant proportion of those rural dwellers still depend on agriculture for a substantial portion of their incomes and livelihoods. The agriculture sector accounts for 20 per cent of total employment (formal and informal) generated within the country.

In view of the low crop yields experienced as a result of poor rainfall, 2000/01 was declared a drought year by the government which issued free seeds to communal farmers. These types of subsidies together with other agricultural development programmes have, however, failed to improve agricultural output and productivity. Consequently, in April 2002, the Parliament approved the National Master Plan for Arable Agricultural and Diary Development (NAMPAADD) which is expected to promote major transformations in traditional farming methods with a view to increasing productivity and reducing uncertainties associated with the local weather conditions. It also aims at providing viable business opportunities for the agricultural sector, moving agriculture from subsistence to a commercial activity.

Livestock, particularly cattle, is the backbone of agriculture, accounting for about 80 per cent of agricultural output. 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. In 2001, farmers sold 170 000 cattle to the Botswana Meat Commission, the highest number sold to the abattoir since the early 1990s.

In line with the poor performance of non-mining activities, bank, insurance and business sector growth fell for the third consecutive year and, in 2000/01, real output rose by only 2.9 per cent (compared to 4.3 per cent in 1999/2000). Furthermore, the tourism sector, which hinges upon Botswana's extensive wildlife resources and benefits from "high value - low volume" visitors, experienced a negative growth rate in 2001 due to the political crisis in neighbouring Zimbabwe and the aftershock of the September 11 attacks on the United States.

In contrast to the service slowdown, the transport and communications sector grew by 5 per cent, almost double the growth rate of the previous year, driven by the rapid rise in air transport. Such growth resulted from a decline in operating costs following improvements in passenger handling, introduction of new routes and improved marketing. Moreover, telecommunications have seen significant growth in 2000/01, with the total number of mobile phone subscribers growing from 195 000 in December 2000 to about 315 000 in

Table 1 - Demand Composition (percentage of GDP)

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03 (p)
Gross capital formation	**25.8**	**36.8**	**24.6**	**21.3**	**24.2**	**24.5**
Public	8.4	16.8	8.0	6.8	8.0	9.1
Private	17.3	20.0	16.6	14.5	16.2	15.5
Consumption	**63.7**	**62.8**	**56.0**	**57.2**	**61.7**	**60.2**
Public	28.9	30.6	27.4	29.5	32.5	32.2
Private	34.7	32.2	28.6	27.7	29.2	27.9
External sector	**10.6**	**0.4**	**19.4**	**21.5**	**14.2**	**15.3**
Exports	49.6	46.7	55.9	52.5	49.5	49.5
Imports	-38.9	-46.3	-36.5	-31.0	-35.3	-34.2

Source: Authors' estimates and predictions based on Central Statistics Office data.

December 2001, an increase of 61 per cent. Another market showing great improvement is the internet, where preliminary estimates indicate that there were more than 33 000 users in 2001, compared to 10 000 in 1999.

The strong economic growth performance in Botswana is clearly derived from strong export performance that has enabled increased consumption (private and public) in recent years. Government spending is estimated to increase in 2002/03, mainly on account of the increased import of food and the budgeted rise in social expenditures. Government investments, which declined in 1999/2000 and 2000/01 due to underspending in the government development budget, are estimated to have grown since 2001/02, reflecting the new impetus that the government has given to pro-growth measures. Although strongly supported by the government, private sector investment is projected to decrease, hampered by a severe shortage of skilled labour and the narrow economic base.

Macroeconomic Policy

Fiscal and Monetary Policy

Botswana's fiscal policy follows the directions outlined by the National Development Plans, the latest of which, the Eighth National Development Plan (NDP 8), runs from April 1997 to March 2003. Although development spending is quite a high proportion of GDP, the government has pursued prudent macroeconomic policies that have allowed budget surpluses in all but two years since 1982/83. Budget revenues stem heavily from mineral taxes, royalties and dividends, which have been the main determinant of budget surpluses over past years.

The budget surplus as a percentage of GDP increased even further in 2000/01, thanks to an improvement in total revenue benefiting from the better than expected out-turn of mineral revenues. At the same time, total expenditure, including net lending, was 3 per cent below forecast, due to underspending on the development budget, which, in turn, reflected implementation capacity constraints. For the fiscal year 2001/02, the budget surplus is estimated to have decreased to 0.2 per cent of GDP (despite a projected deficit of 0.2 per cent of GDP), mainly on account of lower mineral revenue and increased development expenditures. The lower mineral revenue in 2001/02 is partly the result of De Beers imposition of quota restrictions on diamond sales since the second half of 2001 and a fall in the international price of diamonds. For the year 2002/03, the government forecasts a 38 per cent rise in development spending in order to allow ministries to complete as much of the NDP 8 Development Programme as possible. Although it is unlikely that all the planned development projects will be carried out during the period under consideration, upward pressures on spending will come from the

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

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Total revenue and grants[b]	**36.5**	**35.7**	**43.6**	**44.9**	**41.6**	**40.7**
Tax revenue	29.6	26.2	36.2	38.4	36.0	35.3
Total expenditure and net lending[b]	**34.9**	**42.1**	**38.0**	**36.7**	**41.4**	**43.0**
Current expenditure	24.5	29.1	26.1	27.0	29.8	29.5
Excluding interest	*23.9*	*28.7*	*25.8*	*26.8*	*29.5*	*29.3*
Wages and salaries	9.0	10.0	8.8	8.7	9.2	8.8
Interest on public debt	0.7	0.4	0.3	0.3	0.3	0.3
Capital expenditure	11.2	13.6	12.6	10.0	11.8	13.4
Primary balance	**2.3**	**-6.0**	**5.9**	**8.5**	**0.5**	**-2.0**
Overall balance	**1.6**	**-6.4**	**5.6**	**8.2**	**0.2**	**-2.3**

a: Fiscal year begins 1 July.
b: Only major items are reported.
Source: Authors' estimates and predictions based on Ministry of Finance and Development Planning data.

regional shortage of staple food that will make purchase of grain more expensive and from the increase in the wage bill (to compensate for rising inflation). Nevertheless, the deficit is now projected to be around 2.3 per cent of GDP, below the projected 4.5 per cent of GDP as a result of the introduction of a valued added tax (VAT) in July 2002, accompanied by an improvement in the tax collection system that will allow for an increase in government revenue. It should also be noted that the introduction of VAT and the improvement of the tax collection system will allow a diversification away from diamond taxes, royalties and dividends as main sources of government revenues.

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) has been to dampen inflationary pressures in the economy by stricter control of the growth of monetary aggregates. The growth of money supply subsequently slowed in response to the BOB open-market operations involving sales of BOB Certificates (BOBCs), repurchase agreement transactions and commercial banks' utilisation of the secured lending facility. At the end of 2001, the value of outstanding BOBCs had increased by 39 per cent, as compared to the start of the year. The effectiveness of open-market operations was improved further by a move from monthly to weekly auctions and shortening in maturities (91 days). The more frequent auctions allowed for a greater flexibility in the Bank's liquidity absorption and enhanced liquidity management for banks.

The upward trend of inflation recorded since 1998 was reversed in 2001, when the average rate of inflation stood at 6.6 per cent, compared to 8.5 per cent in 2000. The decline in inflation was due to a range of factors including lower international oil prices, and lower inflation in South Africa with which Botswana has close trading ties (around 74 per cent of imports come from South Africa). As emerged from the February 2002 Monetary Policy Statement, the inflation objective of the Bank of Botswana ranges from 4 to 6 per cent. This is not a formal target but represents the range of inflation necessary to achieve general stability in the real effective exchange rate. In order to achieve this inflation objective, monetary policy has been focused on the control of an intermediate target: the growth rate of credit to the private sector, for which a target range of 12.5–14.5 per cent has been set. During the first six months of 2002, inflation had been stable fluctuating around the upper level of the set target range. The average inflation for 2001/2002 was 6 per cent. However, inflation had started to increase in the second half of the year following the introduction of VAT in July 2002, rising to 10.1 per cent in September from the June level of 5.9 per cent. Although the Bank of Botswana tightened monetary policy in October and November 2002 (by raising its bank rate by 100 basis points[2] to 15.25 per cent), average inflation for 2002/03 is estimated to rise above target (to about 7.1 per cent) as a result also of food price increases, owing to grain shortages in the region, and higher South African inflation that will result in a rise of imported inflation.

The exchange rate of the Botswana pula is pegged to a currency basket comprised of the South African rand and the SDR. The pegged system has helped the pula to be generally stable in effective terms. However, in 2001, the pula appreciated in nominal terms by 21.8 per cent against the rand and depreciated by 20.1 per cent against the SDR, as the rand depreciated sharply against the major international currencies. In line with the emphasis put on the control of domestic inflation in 2001, the authorities did not devalue the pula in response to the significant fall experienced by the rand. Despite concerns about competitiveness, the Bank of Botswana is unlikely to adjust the exchange-rate basket in 2003.

External Developments

Traditionally, Botswana's trade agreements have been governed mostly by the Southern African Customs Union (SACU), the oldest customs union in Africa, which provides for the free movement of goods and the

2. In two 50 basis points steps.

right of transit between South Africa and its smaller BLNS neighbours (Botswana, Lesotho, Namibia and Swaziland). However, since January 2000, Botswana has been part of the European Union-South Africa Trade Agreement (EU-SA FTA) and, since September 2000, of the South African Development Community Free Trade Agreement (SADC FTA). Moreover, Botswana qualifies for duty free and quota free exports into the United States under the provisions of the Africa Growth and Opportunity Act (AGOA I)[3], based on raw materials sourced in Africa or from the United States. In August 2002, a new Act, which provides for an expansion of the benefits created by AGOA I, was signed into law. The Act, known as AGOA II, reclassifies Botswana as "lesser developed beneficiary" and therefore textile products manufactured in Botswana become eligible for duty-free access to the US markets regardless of the country of origin of the fabric or yarn used in their manufacture.

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.

Despite the very large surplus in 2000/01, the current account balance declined in 2001/02, owing to the slight fall in diamond exports. Since the third quarter of 2001, sales of diamonds have been badly affected by the global economic slowdown, especially in the United States, which account for more than half of global diamond jewellery sales. During the second half of 2001, formal diamond quotas were imposed by the Diamond Trading Company. Moreover, nickel and copper exports were affected by falls in US dollar prices. However, beef exports rose by 54 per cent owing to the increased demand in Europe, following the outbreak of foot and mouth disease in Britain, a higher number of cattle slaughtered, and the depreciation of the pula against international currencies. Exports of Soda Ash to South Africa also showed an increase of 12 per cent. On the import side, there has been a moderate growth in metal and metal products, as well as vehicles and vehicle parts. Foreign exchange reserves rose by 21.5 per cent in pula terms, representing 39 months of import cover of goods and services. However, this increase in the pula value of reserves was mainly due to the depreciation of the local currency against major international currencies. In US dollar terms, the reserves declined during 2001, mainly due to poor returns in the major international financial markets and were equivalent to $5.9 billion, compared to $6.3 billion at the end of 2000.

Exports are projected to increase in 2002/03 as diamond sales are expected to recover and, although of minor significance, exports of garments are forecast to increase benefiting from the AGOA II. Imports will also rise, reflecting the strong government spending.

The Government of Botswana continues to avoid contracting any new debt from commercial creditors. According to World Bank figures, the total government guaranteed external debt stock amounted to $850 million at end-2001, representing 14.4 per cent

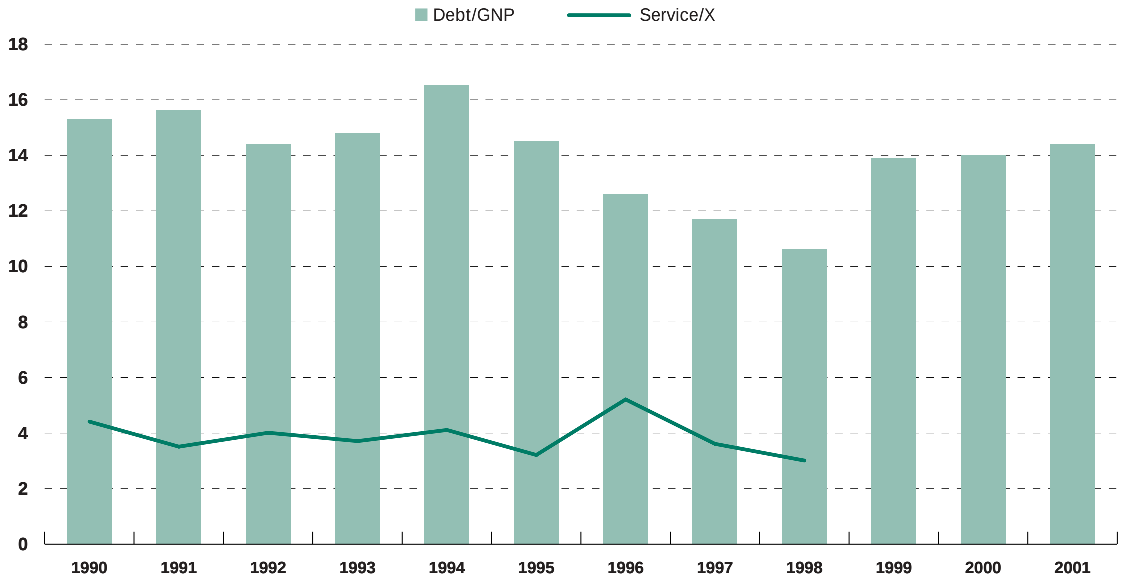
Table 3 - Current Account (percentage of GDP)

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03 (p)
Trade Balance	10.3	-0.1	18.9	21.0	13.5	15.0
Export of goods (f.o.b.)	43.6	39.8	49.7	46.9	42.9	43.5
Import of goods (f.o.b.)	-33.3	-39.8	-30.8	-25.9	-29.4	-28.5
Services	0.3	0.5	0.5	0.5		
Factor Income	-2.8	-1.6	-5.5	-5.4		
Current Transfers	-3.7	-0.1	-0.2	-0.3		
Current account balance	**4.1**	**-1.4**	**13.7**	**15.8**		

Source: Authors' estimates and predictions based on Central Statistics Office data.

3. Signed into law in May 2000.

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



Source: World Bank.

of GNP. The country's debt stock is composed of 63 per cent multilateral debt and 32 per cent bilateral 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 which have not implemented the IMF/World Bank structural adjustment programme. However, although the government is unlikely to borrow much at commercial rates, there are signs that its favourable sovereign credit ratings of A2 and single A awarded in March 2001 (and renewed in 2002) by Moody's and Standard and Poor's, respectively, may encourage some exploratory forays into international money markets. The ratings, which are by far the most favourable awarded to any country in Africa, have been requested by the government in order to provide a benchmark to the market, generate a good credit history, and enable parastatals and private investors to borrow funds from abroad at more favourable terms.

Structural Issues

In the framework of the Eighth National Development Plan (NDP 8), the government is pursuing the objectives of diversifying the economy and increasing employment opportunities. A mid-term review of the NDP 8, carried out in 2000, provided the priorities contained in NDP 9 (which will guide the economic policy formulation and implementation from April 2003 until March 2009). More specifically, it identified several areas of intervention, amongst which: the battle against HIV/AIDS, reducing unemployment and poverty, increasing public sector reform, accelerating economic diversification, improving government expenditure control and fostering greater citizen economic empowerment.

The country's political and economic stability, the absence of any exchange controls, the low cost of local labour and the favourable tax policy which puts a cap of 25 per cent for the corporate tax rate, make Botswana highly attractive for investors. Established by an Act of Parliament in 1997, the Botswana Export Development and Investment Authority (BEDIA) aims at promoting investment opportunities in Botswana as well as finding an export market for locally-manufactured goods in order to reach the goals of diversification away from diamonds and beef. Through its one-stop-service-centre, BEDIA offers services to investors to help with acquiring land, factory shells, work and residence permits, travel visas, grants and any other regulatory authorisation.

In tandem with policies to encourage foreign direct investment, the government is promoting increased participation of local entrepreneurs in the market. Among the sectors that are currently being promoted, textiles and garments are seen as the most promising, especially in consideration of benefits deriving from the above-mentioned AGOA II. In the past, the government initiated several policies and programmes aimed at promoting citizen economic empowerment that, in fact, did not produce the desired results. One such programme was the Financial Assistance Policy (FAP), which, in the later years of its implementation, recorded high failure rates among the businesses assisted, as well as widespread abuse of the scheme by some beneficiaries. FAP was terminated in 2001. In order to overcome the weaknesses and the difficulties encountered under FAP and other programmes, the government launched the Citizen Entrepreneurial Development Agency (CEDA) in 2001, which is mandated to provide assistance to Batswana wishing to go into business or to expand an existing business, through entrepreneurial and management skill training, monitoring and mentoring, provision of finance and sharing of risk. The financial assistance provided by CEDA is in the form of loans at subsidised interest rates, as opposed to outright grants, as were provided under FAP. The success of CEDA will mainly depend on its capacity to avoid supporting and subsidising non-viable businesses.

Notwithstanding the government's efforts to attract FDI in order to promote private sector development and the diversification of the economy away from mining, foreign investment inflow has exhibited a decreasing trend (from $100 million in 1997 to $57 million in 2001). Botswana has lost its prominent position among the SADC region as the main recipient of FDI, as other SADC countries have started to open up to FDI, mainly through privatisation, which, as we will see later, Botswana has yet to seriously embark upon. Such low performance with respect to FDI can also be attributable to an inadequate supply of skilled labour, the high cost of utilities and the limited domestic market. Moreover, FDI in manufacturing and services constitutes only about 2 per cent of the total stock of FDI inflow. According to the Bank of Botswana, 79 per cent of foreign direct investment continues to be in mining, followed by wholesale and retail trade and finance, which account for 8 per cent and 6 per cent of direct investment stock, respectively. The dominant source of FDI is South Africa accounting for 61 per cent, followed by the European Union countries accounting for 36 per cent, and the USA, accounting for 1 per cent.

Privatisation is still in its infancy in Botswana. In the third quarter of 2001, the Public Enterprises Evaluation and Privatisation Agency (PEEPA) was established, with the mandate of monitoring state-owned enterprises' (SOEs) performance and advising government on the privatisation process. PEEPA operates under the general policy guidance of the Ministry of Finance and Development Planning.

The privatisation programme in Botswana is a broad development policy, which goes beyond simply restructuring enterprises. The policy aims at contributing to the objective of economic diversification and empowerment of the local private sector. Unlike many other sub-Saharan African countries, privatisation in Botswana has not been adopted as a solution to financial, economic or political crisis, but has been designed in order to improve efficiency in the delivery of services and to create further growth opportunities for the private sector. Moreover, unlike the experience of many other countries, such as Zambia and Tanzania, where the government is selling most of the SOEs, privatisation in Botswana will be carried out on a selective, case-by-case basis.

PEEPA is currently carrying out a diagnostic study of the main SOEs in order to evaluate their performance and investigate the potential gains from privatisation. Based on the outcome of the study, PEEPA will then develop a Privatisation Master Plan, which will provide the basis for policy implementation, and outline the specific methods and appropriate measures to be adopted in the privatisation process. In order to ensure citizen empowerment, the government will assist Batswana to acquire shares in privatised enterprises, through, for instance, the use of pension funds to buy shares for the benefit of members, or special access to shares by management and employees. However, when the objective is to attract technology and management expertise, the privatisation process will be open to participation from regional or even international global buyers. It is expected that most of the privatisation of SOEs will go through the stock market.

Air Botswana is the first SOE that has been earmarked for privatisation. The airline undertook a profound restructuring and downsizing process in 1995, which finally enabled the company to record a profit after many years of making losses. Following this restructuring, the privatisation of Air Botswana has been seen as an opportunity for expanding the market, bringing in expertise and accessing technology. The privatisation of Air Botswana was due to take place in 2001; but it has been delayed owing to a deterioration in industry specific and international economic conditions.

The main difficulty faced by PEEPA is the lack of statutory authority giving it powers to drive privatisation. This enables public enterprises and certain government departments to ignore requests and initiatives made by PEEPA to kick-start the process. The other difficulty is the absence of an effective regulatory framework to protect consumers from any monopolistic tendencies of some of the utilities or which spells out the environment in which private sector entities are required to compete.

The financial system of Botswana is characterised by relatively sound and profitable institutions and infrastructure of a high standard, with good telecommunications facilities and institutional support mechanisms. Botswana has a well-developed banking sector, comprising Barclays, Standard Chartered, Standard Bank Investment Corporation (Stanbic), First National Bank and Bank of Baroda (established in March 2001), as well as two investment–merchant banks and a number of development financial institutions. A major development during 2001 was the completion of a Strategic Framework on the National Payments System by the Bank of Botswana, in consultation with commercial banks.

Botswana is also developing an International Financial Services Centre (IFSC), launched in March 2000, which should act as an efficient intermediation process for investment funds from South Africa and the rest of the world into other parts of Africa. Although the success of the project can only be determined in the long run, the authorities are optimistic since, during 2001, ten projects became operational. Furthermore, the outlook for the future is positive as some banks are relocating from Johannesburg as a result of the enhanced reputation of Botswana associated with its high sovereign credit rating. The first tax contributions from IFSC projects have been received as the first group of projects have completed their first year of operation.

Other recent financial sector reforms include the restructuring of the Botswana Development Corporation (BDC). Being involved in all sectors of the economy except mining, the state-owned development finance institution provides loans to private corporations, takes equity participation and provides business, industrial and residential premises at commercial rates. It is also used to provide guarantees for normal bank loans. BDC adopted a divestment policy in 1995, where, consistent with national policies, domestic investors were strongly favoured over foreigners. Moreover, BDC has shifted from being a typical development financial institution towards being a more commercially-oriented financial institution, which evaluates and participates in investments based on their commercial viability. BDC's policy reforms, the processes of divesting investments and the introduction of a new system of flexible interest rates make it a solid institution which can provide greater support for citizen economic participation. BDC posted good results in 2001, with a 28.7 per cent growth in its profits compared to 2000. During 2001, the Corporation's total investment portfolio was spread over three core sectors of operation; namely, property development and management (50 per cent), industry and agribusiness (39 per cent) and services (11 per cent).

The Botswana Stock Exchange (BSE) started operations in 1995, taking over the operations of the Botswana Share Market, which had been set up in 1989. Early reforms which impacted on the Stock Exchange included the amendment of Botswana's exchange control regulations to permit dual listing of shares; that is, shares of approved companies could be dual listed on the BSE and other international stock markets. At the end of 2001, there were 16 companies listed on the Exchange, with a total market capitalisation of P8.91 billion ($1.31 billion).The domestic companies index (DCI) rose by 69 per cent that year. The BSE recorded substantial gains owing to the expected boost to demand caused by the establishment in April 2001 of a Funded Contributory Pension Scheme for the public service, 30 per cent of the assets of which must be invested locally. More significant gains were predicted for 2002 but they failed to materialise as the DCI lost ground from March through December.

Social and Political Developments

Botswana is a politically stable country holding elections every five years. The Government of Botswana 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 and stable economic policy environment for the private sector. Botswana is doing relatively well in terms of having a low incidence of corruption. According to the Transparency International Corruption Perception Index of 2002, Botswana was ranked as the 24th least corrupt country in the world, and the least corrupt on the African continent.

In spite of its remarkable economic performance, and several social welfare/safety net initiatives, Botswana still suffers from widespread poverty, resulting mainly from the weak economic base in rural areas, lack of sufficient human capabilities, unequal access to resources socio-cultural problems (including unequal gender relations) and a high unemployment rate, estimated at more than 15 per cent of the labour force in 2001. The government has tried to use decentralisation as an instrument for enhancing rural development performance. However, the need to have a coherent national development planning process and to ensure accountability and control, along with the lack of local (district and lower level) capabilities, hamper the attainment of decentralisation. The advent of HIV/AIDS further threatens Botswana's development challenges. Indeed, HIV/AIDS represents both a cause and a consequence of poverty, unemployment and inequality, and invariably draws resources away from other priority areas. A number of other causes of poverty can be cited, including:

- land-related issues: for instance, there is a lack of security of tenure and access to complementary resources, such as credit for productive land use;
- drought and the resultant high risk for investment in farming.

Available statistics indicate that 47 per cent of the population was living on incomes below the official poverty datum line in 1993/94[4]. Though the percentage had declined from the 59 per cent registered in 1985/86, the decline in this rate is slow in relation to the impressive economic growth rates attained by the country. The 1993/94 Household Income and Expenditures Survey reported a Gini coefficient of 0.537 and that the top 20 per cent of households earned 59 per cent of income. UNDP extrapolations based on the household income and expenditure surveys of 1985/86 and 1993/94 indicate that in 2001 the proportion of population living below the poverty datum line had fallen to 36.7 per cent. The distribution of income and the incidence of poverty are characterised by gender disparities and 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 in 1993/94 compared with

4. The National Poverty Datum Line (PDL) used in Botswana in 1993/94 (P101 per person per month in June 1994 prices) translates to about $37.2 per month at the 1994 $/pula exchange rate. The Botswana PDL is therefore a little higher than the "$1 a day per person" used by multilateral organisations.

46 per cent in urban villages and 29 per cent in urban areas. Poverty also varies significantly by region. The central and northeast 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 government has embarked on a concrete effort to rid Botswana of poverty by the year 2016 as stated in the National Strategic Vision. The medium-term goal is to reduce the incidence of poverty by 2007 to a rate of less than 23 per cent. In pursuit of these goals, the first draft Botswana Poverty Reduction Strategy (BPRS) was prepared in October 2001. The poverty reduction strategy adopts a multidimensional concept of poverty that includes income poverty, capacity poverty and participation poverty. It identifies and recommends 16 programmes that should be implemented over a ten-year period aimed at enhancing the accessibility of the poor to social investment and strengthening the capacity of local government institutions to facilitate poverty reduction.

The health system in Botswana provides free or nearly free primary health care for all. By the early 1990s, about 85 per cent of the rural population had access to a health facility within a distance of 15 km. However, in the last decade, HIV/AIDS has offset much of the country's impressive health progress, and has led to a higher incidence of related diseases, such as respiratory diseases (including tuberculosis) and gastro-intestinal infections.

Botswana suffers from the highest rates of HIV/AIDS prevalence in the world. Botswana's historic labour migration to South Africa, the tradition of shuttling between village homesteads, land areas and cattle posts across seasons, and more recently urban areas, give 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, less pronounced in Botswana. Along with being a transit route for the shipments of cargo north from South Africa, and south from other southern African states to South Africa and the rest of the world, 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[5].

HIV infection rates are very high, at 39 per cent for the 15-49 year age group. It is estimated that 35.5 per cent of all HIV infections among females occur between the ages of 15 and 19. For males of the same group, the figure is estimated at 14 per cent. Moreover, the HIV prevalence rate for all age groups has increased gradually and, by 2001, had reached at least twice the rate it was in 1992. According to the UNDP Human Development Report 2002, life expectancy in Botswana has fallen from 67 years in 1996 to 40.3 years in 2000. As a result, the country is expected to lose a lot of its skilled and experienced labour over the next two decades, which will significantly reduce productivity and, consequently, the rate of economic growth. The Botswana Institute for Development Policy Analysis (BIDPA) study in 2000 on the macroeconomic impact of HIV/AIDS predicted that, over the period 1996-2021, the annual growth rate of GDP could be as much as 2.5 percentage points less than it would have been in the absence of the epidemic.

As a result, in 2021, the economy is projected to be 31 per cent smaller than it would have been without HIV/AIDS. In 2000, the government declared HIV/AIDS to be a national emergency and initiated a number of additional major steps to address the epidemic. The National Aids Co-ordination Agency (NACA) was established at the end of 2000, with the mandate to co-ordinate the multi-sectoral response to Aids by the Ministry of Health, the Ministry of Finance and Development Planning and donor agencies. The areas of intervention include prevention strategies, and provision of voluntary counselling and testing centres throughout the country. At present, many initiatives are co-ordinated by NACA. Among them, Botswana

5. The public service system of transferring officers from duty station to duty station, and thus separating spouses, is another contributory factor.

has been the first county in Africa to launch a national Prevention of Mother to Child Transmission Programme (PMTCT) that provides counselling and free HIV testing to pregnant women, and offers them the option to enrol in the programme and receive treatment. Moreover, in October 2001, the government launched an anti-retroviral (ARV) treatment programme, which should allow the free provision of anti-retroviral drugs through the public health service.

In early 2002, 250 sufferers were receiving ARV drugs from a health centre in Gaborone; and, by the beginning of 2003, 19 000 sufferers are expected to be receiving state-funded treatment. So far, it is difficult to gauge the impact of this policy since too few people have access to treatment, considering that more than 280 000 are estimated to be affected by the disease. The 2002/03 budget provides $50 million (about 1 per cent of GDP) for HIV spending, of which $4.5 million is for anti-retroviral treatments. The private sector is also supporting the government's efforts in cushioning the impact of the HIV/AIDS pandemic by providing anti-retroviral drugs to their employees. Debswana, the diamond producer, has become a model among companies in the fight against HIV/AIDS. The company records that every level of the organisation, including its diamond-cutting business and its headquarters in Gaborone, is affected by AIDS (e.g. 18.8 per cent of its highest paid workers testing positive). The company runs two hospitals for its 6 196 workers and pays 90 per cent of the cost of anti-retroviral treatment for its employees who are not covered by a medical insurance plan. Indeed, Debswana will also pay for the same treatment for a wife or husband of an employee.

Although the educational system in Botswana is considered to be among the best in Africa, the system is not empowering all people to access jobs in a highly competitive labour market, which is a major contributor factor to unemployment and widespread poverty. In particular, despite a substantial achievement in terms of gross primary and secondary school enrolment (the ratios are 116 and 89 per cent respectively) the quality of teaching is low owing to the high number of untrained teachers. The situation is exacerbated by the high prevalence of HIV/AIDS which has devastating effects on the supply and quality of teaching. HIV/AIDS also has an impact on the number of dropouts from secondary schools which are increasingly linked to HIV related diseases for pregnant girls. However, in the 2002 budget, education accounts for the largest share of government expenditure, nearly a quarter of the total budget (23 per cent). This reflects the government's intention to invest heavily in education as a way of increasing skills development to improve productivity and create more jobs, as stated in the national Strategic Vision 2016. Following the recommendation of the Revised National Policy on Education of 1994, the goals and contents of the secondary school programme have been revised to emphasise pre-vocational preparation. In this context, the government launched the Botswana Technical Education Programme in 2000, with the aim of enhancing technical training in the country. Moreover, the University of Botswana continues to be expanded and now caters for many more students than before (the number of university students in 2002 was over 11 000 compared to 3 600 ten years before). In addition, a substantial number of students who cannot be catered for in local institutions are being sent abroad for education and training.

Burkina Faso

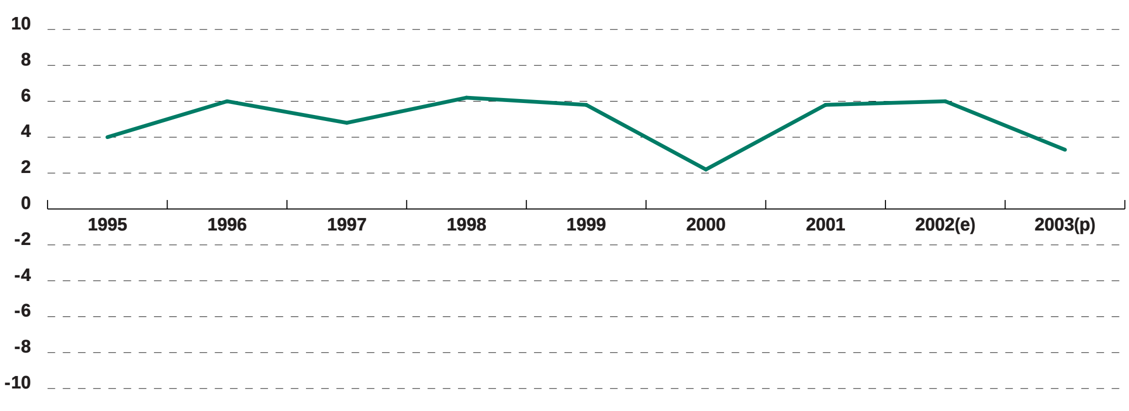
key figures

• Land area, thousands of km²	274
• Population, thousands (2001)	11 856
• GDP per capita, $ (2001)	210
• Life expectancy (2000-2005)	48.1
• Illiteracy rate (2001)	75.2

BURKINA FASO'S ECONOMIC PERFORMANCE is heavily dependent on what happens beyond its borders because the country lives mostly off agricultural exports, mainly cotton and cereals, and receives substantial foreign aid. The economy slowed down sharply in 2000 due to the international situation and poor rainfall, but activity picked up in the last quarter of 2001 thanks to very good cotton and cereal harvests. This produced 5.7 per cent overall growth for 2001 after a drop to only 2 per cent in 2000. Growth is expected to top 6 per cent in 2002 because of increased consumption triggered by the much higher farm incomes at the end of 2001. The weakness of world commodity prices – and the resulting lower prices paid to farmers – may mean a smaller cotton harvest at the end of the 2002/03 season, which would pull down the growth rate again, to around 3.3 per cent. The renewed troubles in Côte d'Ivoire from September 2002 could also disrupt the flow of exports and imports, despite a policy of diversifying trade routes through Ghana, Togo and Benin. This could upset prices and push inflation above 3 per cent in 2003 after a fall to 2.5 per cent in 2002. Diplomatic tensions and the threat of a major influx of refugees could aggravate these economic side effects. So the country's short-term development depends very much on a solution to the Ivorian crisis.

Despite increased economic growth, Burkina Faso's short-term development depends very much on a solution to the Ivorian crisis

Figure 1 - Real GDP Growth

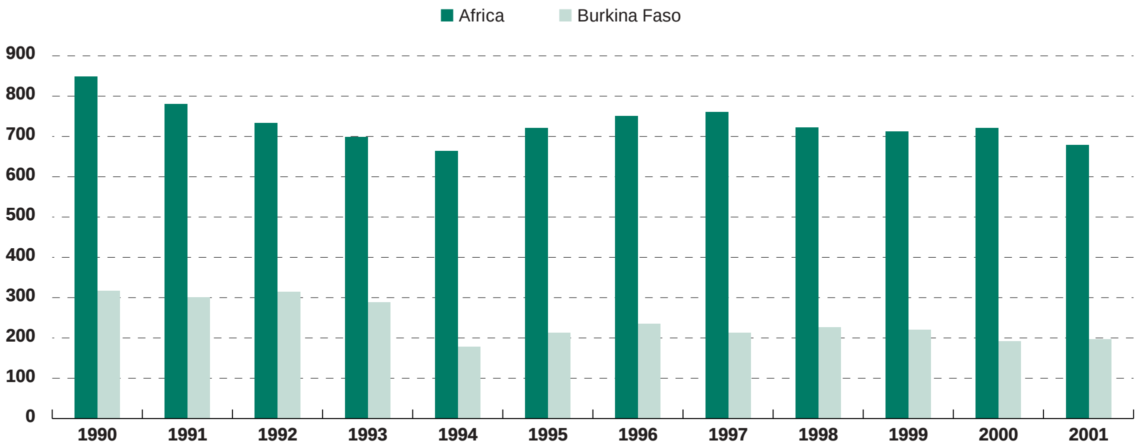


Source: Authors' estimates and predictions based on IMF data.

After a very difficult season in 2000/01, agriculture and related processing have again been the motor of growth since the end of 2001. The primary sector registered growth of 10 per cent thanks to a record cotton harvest and restored cereal production after the previous year's poor results. Agriculture, cattle-raising, forestry, hunting and fishing employ virtually all the population (88 per cent in 1997) and accounted for 75 per cent of export earnings and more than 40 per cent of GDP in 2001.

Apart from heavy dependence on the weather, the cereals sector is badly organised, resulting in very low prices to farmers, bad management of stocks and pockets of activity outside the normal market structure that have a big effect on prices. To remedy this, the government in early 2001 helped set up *Soprof*a, a three-quarters privately-owned firm, to organise inputs, credit and harvesting. This should improve marketing in 2002, with the firm's planned purchase of 13 billion CFA francs worth of cereals, but the arrangement is

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



Source: Authors' estimates based on IMF data.

controversial because it will eliminate intermediaries in the sector.

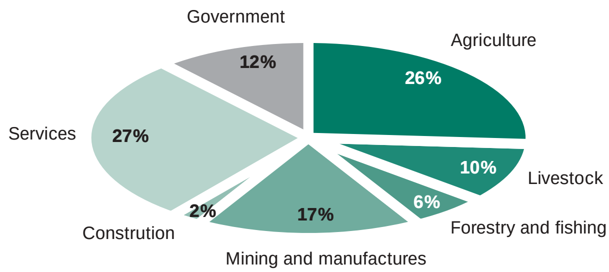
The 1994 devaluation and structural reforms (especially towards greater involvement of farmers in running the state-owned cotton firm *Sofitex*) greatly boosted cottonseed production — from 143 000 tonnes in 1994 to 214 000 in 1996 and 338 000 in 1997. Despite lower world prices and problems with insects, these gains held due to greater productivity and better management at *Sofitex*. The 2001/02 harvest was a record 400 000 tonnes due to well-distributed rainfall and a higher price (200 CFA francs/kg) for producers,[1] whose income was boosted by two-thirds and is expected to have a significant impact on rural poverty. The 2002/03 season looks less rosy in view of still-low world prices. *Sofitex* has said it will not distribute profits but the authorities hope this will not discourage farmers much since they have been brought into the running of the sector. The good management at *Sofitex* as well as farmer participation in decision-making would seem to rule out the kind of broad strike that occurred in Mali in 2000.

Despite strong competition from Asian rice since import restrictions on the grain were eased in 1996, rice cultivation is increasingly important in the Burkinabé economy. The government has encouraged this with irrigation and other measures 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 small farm-size and the country's limited hulling facilities. The higher productivity in the sector in recent years can only be maintained by better water management and more co-operation among farmers. The government is also relying on fruit and vegetables to expand and diversify agriculture, despite poor transport and handling facilities.

Substantial investment in mineral prospection has not produced as much growth as expected. Gold production reached four tonnes in 1997, from the mine at Poura. Lower world prices since then have sharply reduced prospecting and mining. Below a price of $300 an ounce, large-scale mining in Burkina Faso is not very feasible due to high production costs. In 2001, mining accounted for less than 1 per cent of GDP. However in 2002, the price of gold increased slightly, raising hopes in the sector. Several projects (notably at

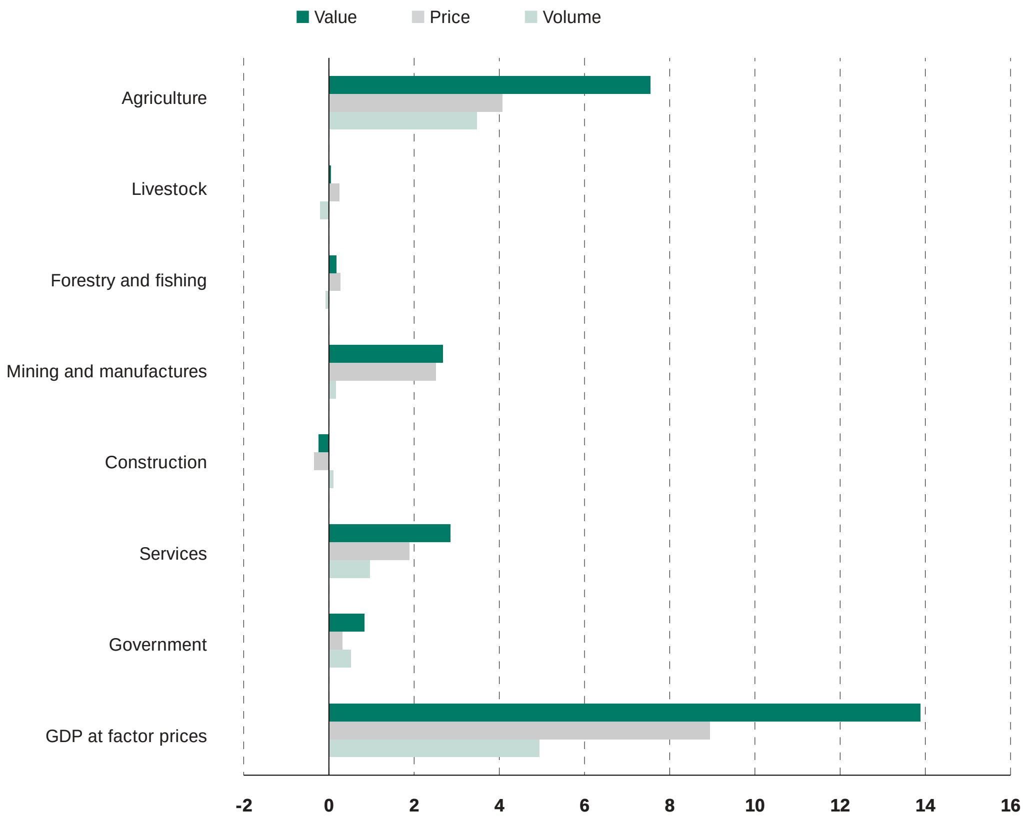
1. For the 2001/02 harvest, producer prices rose 10 per cent (from 159 CFA francs/kg to 175). Farmers also got a 25 CFA franc bonus when Sofitex distributed half the profits it made on the previous year's harvest.

Figure 3 - GDP by Sector in 2001



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

Figure 4 - Contribution to GDP Growth at Factor Prices in 2001

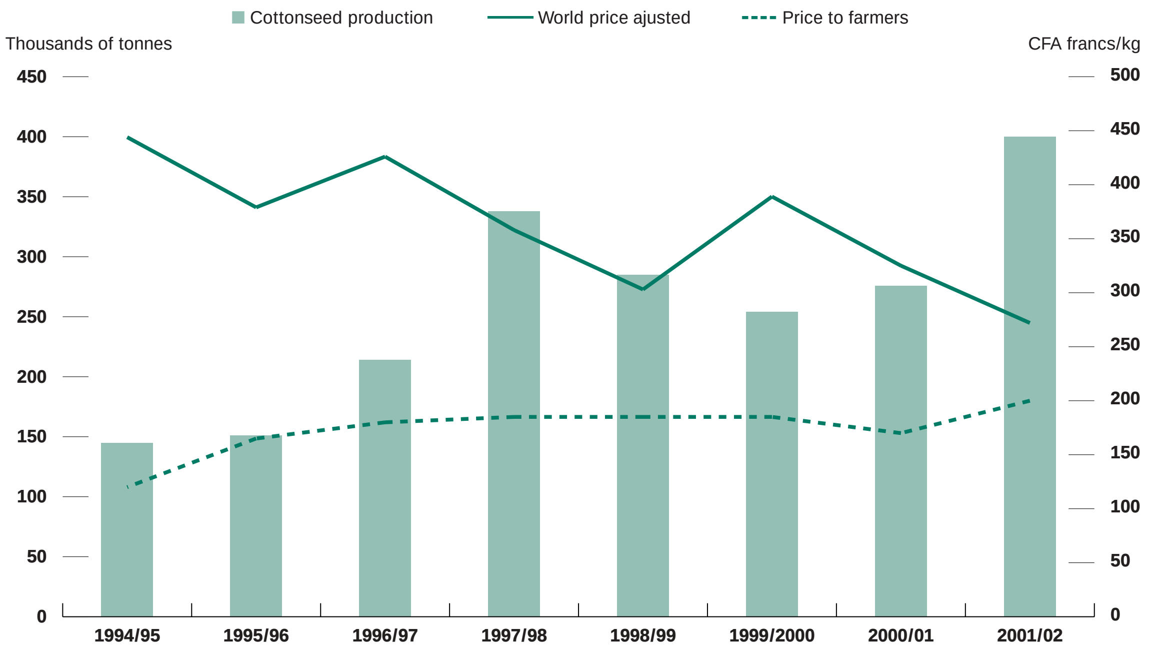


Source: Authors' estimates based on Ministry of Economy and Finance data.

Kalsaka, Taparco and Youga) are ready to start up quickly if the price increase in maintained. The authorities have moved to help the sector by revamping the mining laws, considered by all to be obsolete and very unfriendly to investors because of heavier taxes than in neighbouring countries. Revision of the offending laws should be complete by early 2003. The government is also encouraging small-scale mining which appears promising because of its lower costs and important impact on the micro-economy.

The industrial sector is about 17 per cent of GDP and is still mostly food-crop processing and to a lesser extent cotton ginning. After a poor year in 2000, the

Figure 5 - Cotton Production and Prices in Burkina Faso



Note: Production and farmers' prices concern cottonseed on a crop period basis. The international price is for cotton fibre, so it has been converted into the equivalent of cottonseed at a conversion rate of 42 per cent. It is calculated on a calendar year basis (year n+1 for a crop in n/n+1).
Source: IMF and World Bank.

sector began to recover at the end of 2001, when the good harvests led to a healthy performance by the processing sector. As a result, overall manufacturing production rose by 24 per cent in value in 2001. But the private sector is still grappling with high factor costs,[2] an increase in customs fraud and higher taxes whose effect is magnified by being drawn from the small formal sector of the economy. A promising movement towards dialogue with the government began at a first annual forum held in Bobo Dioulasso on 25 May 2001 chaired by the prime minister. However, at the second meeting, on 5 July 2002, the private sector pointed out to him that little had been done about key issues such as fraud reduction, taxation and reforming the labour laws. Some foreign investors also object to legal abuses and the growth of corruption.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**23.8**	**29.1**	**29.1**	**26.1**	**25.5**	**23.6**
Public	10.2	15.5	15.2	11.8	12.2	11.0
Private	13.6	13.6	13.8	14.3	13.3	12.7
Consumption	**91.2**	**89.1**	**90.0**	**90.1**	**90.5**	**94.5**
Public	11.1	11.6	11.7	11.7	12.1	12.0
Private	80.1	77.5	78.3	78.5	78.4	82.5
External sector	**-15.0**	**-18.2**	**-19.1**	**-16.2**	**-16.0**	**-18.2**
Exports	13.3	12.7	11.5	11.9	11.6	9.9
Imports	-28.3	-30.9	-30.6	-28.1	-27.6	-28.0

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

2. These included energy, water and communications and the country's rigid labour laws.

The tertiary sector accounts for about 40 per cent of GDP and grew by nearly 3.5 per cent in 2001, less than the annual average of 6 per cent between 1995 and 2000. The sector is mostly trade, but transport has done particularly well since 1995 because of liberalisation and investment in the road network.

The 5.7 per cent GDP growth in 2001 was largely due to the recovery in farm production at the end of the year. But because of the time-lag between good agricultural performance and its effect on the rest of the economy through the increased earnings of farmers, real activity remained fairly stagnant and was reflected in demand aggregates. The mediocre food-crop harvest of the previous year (2000/01) and higher inflation meant household purchasing power declined in 2001 and volume consumption did not keep up with the growth of population. Investment and import growth also remained slack and public investment even fell significantly. However in 2002 and 2003 (based on our prediction of a smoothing in consumption over the period), the economy should benefit from the good 2001/02 harvest and see higher incomes and public investment. Imports will show a solid increase and the good performance of the cotton sector should significantly boost the country's exports in 2002. But export performance could weaken again in 2003 with a smaller cotton crop and difficulties of transport through Côte d'Ivoire.

The strength of demand also greatly depends on remittances from the five million or so Burkinabé citizens living abroad (nearly two-thirds of them in Côte d'Ivoire), on top of the population of 11.8 million. The recent ethnic conflicts in Côte d'Ivoire have meant a sharp drop in these payments and the new upsurge of fighting in September 2002 can only reduce them further.

Macroeconomic Policy

Fiscal and Monetary Policy

Burkina Faso's economy has been under IMF supervision since 1991, which has helped stabilise government finances. Between 1991 to 1999, government revenue showed significant nominal growth due to better tax collection. But the rate of taxation is still small, around 12 per cent of GDP and well below the WAEMU/UEMOA goal of at least 17 per cent.[3] So government finances still depend heavily on external funding, with grants usually accounting for 8 per cent of GDP (except in 2001, when they fell sharply, to 4.6 per cent).

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants [a]	**19.6**	**24.3**	**22.3**	**17.2**	**19.7**	**19.4**
Tax revenue	11.1	14.2	12.3	11.7	11.8	12.0
Grants	7.7	9.0	8.9	4.7	7.1	6.6
Total expenditure and net lending [a]	**19.9**	**26.4**	**26.4**	**24.9**	**25.8**	**24.4**
Current expenditure	11.5	11.5	11.9	11.8	12.4	12.4
Excluding interest	*10.1*	*10.6*	*10.9*	*10.8*	*11.6*	*11.6*
Wages and salaries	5.4	5.3	5.4	5.3	5.3	5.3
Interest payments	1.4	0.9	1.0	1.0	0.8	0.8
Capital expenditure	8.7	14.9	14.3	13.2	13.5	12.2
Primary balance	**1.1**	**-1.2**	**-3.2**	**-6.7**	**-5.3**	**-4.2**
Overall balance	**-0.3**	**-2.1**	**-4.2**	**-7.7**	**-6.1**	**-5.0**

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and Ministry of Economy and Finance data.

3. Tax revenue is substantially limited by government anti-poverty efforts that rule out any extension of taxation to some sectors of the economy, such as food-crop production.

Government tax receipts for the 2001 budget period were unremarkable, reaching 213 billion CFA francs ($291 million), 65 billion ($89 million) short of budget requirements. This poor performance was partly due to slow economic recovery but especially to the problem various government agencies had collecting taxes, notably VAT. At the same time, grants to Burkina Faso fell sharply – from 146 billion CFA francs ($199 million) in 2000 to 85 billion ($116 million) in 2001 – partly because they were replaced by HIPC money (which involved repeated delays in disbursement), but also because the country's image was damaged in the eyes of international funding agencies by its suspected involvement in diamond smuggling from Sierra Leone and by a rise in petty corruption.

This poor tax performance did not however increase the budget deficit because spending was less than planned, in current expenditure (mainly transfers, since salaries increased significantly) and especially in investment (as in other UEMOA countries).[4] Realising resources freed up by the HIPC Initiative was slow, due to delayed payments by some funding sources and liquidity problems at the treasury, where a special account was set up for the HIPC funds.[5] By the end of December 2001, only 27 per cent of the 2000 and 2001 money freed up had been realised. To avoid the temptation of using the HIPC money to ease the government's financial problems, the treasury account was transferred to the BCEAO on 1 July 2002. The decision by UEMOA countries to no longer make use of advances available from UEMOA also encouraged the government to issue treasury bonds. This produced offers from the banks totalling over 50 billion CFA francs ($68 million), against a goal of only 7.7 billion ($10 million), demonstrating both the government's credibility and the strong liquidity of the banks.

The 2002 period began more promisingly, with a marked improvement in tax revenue, and the budget was firmly outward-looking, with a significant rise in expenditure. Salaries continued to grow by about 5 per cent because of the programme to rehabilitate (through days of forgiveness) employees dismissed by the previous government. A major effort was also planned to use the HIPC money. But public finances remained structurally shaky. Increased expenditure, notably on civil servants' pay, is hard to curb, while implementation of the budget is poorly organised. With help from the World Bank, the government recently looked at budgetary management and concluded that normal procedures were defective (the government routinely speeds them up) and that monitoring of income and expenditure was unsatisfactory (the state auditing board is not yet operating). A budget management improvement plan for the period 2002-2004 was passed by the cabinet on 31 July 2002.

Like other UEMOA countries, Burkina Faso's currency is pegged to the euro and its monetary policy is conducted by the BCEAO, leaving fiscal policy as

Table 3 - Current Account (percentage of GDP)

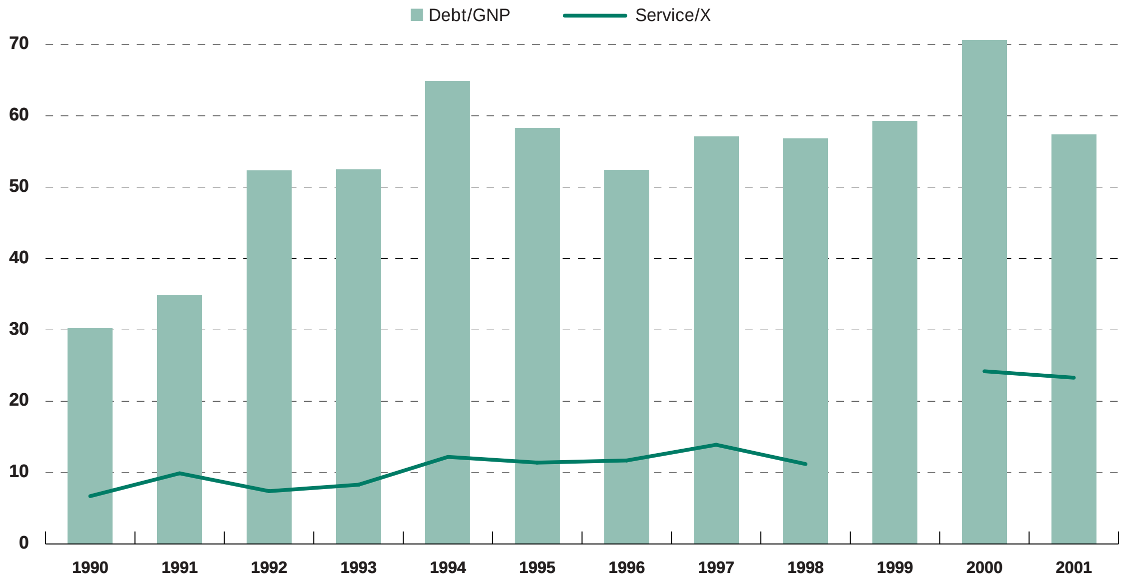
	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade balance	-10.8	-12.9	-13.5	-11.1	-10.8	-12.6
Exports of goods	10.3	10.0	8.9	9.4	9.3	7.8
Imports of goods	-21.2	-22.9	-22.4	-20.5	-20.1	-20.4
Services balance	-4.7	-4.5	-4.7			
Factor income	0.5	-0.7	-0.9			
Current transfers	10.2	5.7	5.3			
Current account balance	**-5.8**	**-12.5**	**-13.8**			

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

4. The reduced tax revenue and failure to control current expenditure meant the government used capital spending as an adjustment variable.

5. In a paper operation with no actual payment involved, the account was credited with the money the country would normally have repaid to creditors.

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



Source: World Bank.

the government's main economic instrument. In 2001, inflation rose to 4.9 per cent, above the UEMOA limit of 3 per cent, as a result of the bad 2000/01 cereals harvest and the higher cost of oil. It should settle at around 2.5 per cent in 2002 with the good 2001/02 harvest. But 2003 could see a return of inflationary pressure (with the rate increasing to 3.2 per cent) if predictions of a poor 2002/03 food-crop harvest are borne out and the troubles in Côte d'Ivoire continue. At the end of 2002, prices of fruit and tubers rose between 10-15 per cent due to fewer imports from Côte d'Ivoire.

External Position

Burkina Faso's exports are very narrowly based. Cotton alone brought in 55 per cent of all foreign earnings in 2001, so the balance of payments is heavily dependent on conditions in that sector. Livestock is the second biggest export, at about 20 per cent of the total. Gold accounts for 4 per cent, while manufactured goods and other farm products make up the remaining 21 per cent. Imports are mainly machinery (30 per cent), intermediate goods (28 per cent), oil products (18 per cent) and food products (14 per cent). About 45 per cent of all trade is with Europe. UEMOA countries (led by Côte d'Ivoire) come second with more than a quarter (27 per cent in 2001).

Burkina Faso's trade deficit is structural because of its weak export capacity and heavy dependence on countries supplying intermediate goods, machinery and oil products. Exports have generally stagnated since 1998 because of ups-and-downs in the cotton and gold sectors. In 2001 and 2002, a better 2001/02 cotton harvest reduced the trade deficit, but only slightly because the greater quantity of cotton produced was offset by poor world prices and the difficulty of shipping exports at the prices set in futures contracts. In 2003, the trade deficit will widen again due to a sharp drop in cotton production, difficulties in the livestock sector due to the troubles in Côte d'Ivoire and uncertainties in the gold sector. Foreign direct investment has held up well since 2000 thanks to liberalisation of the telecommunications sector.

Dependence on external funding is a major feature of the Burkinabé economy, but the country's foreign debt (57.4 per cent of GNP in 2001) is more under control than in other UEMOA states and is about 40 per cent soft loans, so its NPV is only about 35 per cent of GNP. The internal debt, mostly to commercial banks, dropped sharply in 2000.

In September 1997, Burkina Faso became one of the first countries to be declared eligible for the HIPC Initiative. It achieved completion point for the basic initiative in July 2000 and for the enhanced initiative in May 2002, leading to review of the sustainability of the country's debt, an unprecedented development in the HIPC process and justified by major external shocks (mostly the fall in cotton prices).[6] This reassessment led to a $424 million debt reduction in net present value, $26 million more than the figure based on the 1999 data. The country is now trying to get the Paris Club to accept this reduction.

Burkina Faso has big problems making use of HIPC funds, due to slow release of the money by creditors and the country's small capacity to absorb it. Burkina should have received 11 billion CFA francs ($15.5 million) in debt service relief in 2000, but only 7 billion ($9.8 million) was realised (5 billion disbursed in June 2001). In 2001, only 22 billion CFA francs ($30 million) out of 25 billion ($34 million) were realised and nothing disbursed. In 2002, an extra 25 billion CFA francs were expected to add to the 24 billion still not disbursed.

Structural Issues

Burkina Faso has made great progress in structural reform since 1995 and 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. To encourage openness and participation, the cotton sector has been imaginatively reformed by involving farmers in running *Sofitex*. Governance reforms have not yet gone beyond declarations of intent and setting up institutions. The legal system, notably the supreme court, has been restructured, the defence ministry audited and a national plan for good governance set in motion.

A first round of privatisation, now nearly complete, was begun in 1991 and involved 45 medium-sized state enterprises. Twenty-six were sold to the private sector, four are still in transition, 12 were or are being disbanded and three have been withdrawn from the programme. 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 while the disbanded firms led to 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. The handover of the state telecommunications company *Onatel* is still incomplete but should be done by early 2003. A strategic investor will buy 34 per cent of the firm, while 20 per cent of the shares will be floated on the regional stock exchange. The government and private Burkina investors will keep the remaining 46 per cent.

In July 2001, a new round began, this time of 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). *Sonabel* and *Sonabhy* were being processed together. Consultants are being chosen to help the privatisation committee with the auditing. The kind of privatisation has not yet been decided on, though partial rather than total privatisation seems to be winning the day (*Sonabel*'s privatisation is a delicate political and social matter). A five-year contract to manage *Onea* was signed with Vivendi in January 2002, thus postponing privatisation. Of the 11 firms earmarked for complete privatisation, two are in compulsory liquidation and the six joint-venture companies have been lumped together for sale to small investors by the national financial intermediation company. Of the other three firms, *Medifa* (the Faso National Drug Laboratories) is the only one whose privatisation has been started.

6. Calculation of the debt-to-exports ratio was changed by using 2001 instead of 1998.

Burkina Faso is a landlocked country with poor infrastructure, but enormous progress has been made over the last decade. Some 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 have been built or repaired. The government recently decided to give priority to rural tracks as a centrepiece of its fight against poverty. It is also relying on regional efforts (within UEMOA, but also NEPAD) to develop links with other countries in the region.

The country's single railway runs 622 km from Kaya (north of the capital) to the Ivorian border, where it connects to the Ivorian network, 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 the volume of freight from 240 000 tonnes in 1994 to 896 000 in 2000. Passenger traffic has also increased (by 30 per cent in 2001 and by May 2002 had already reached two-thirds of the 2001 total). However the renewed fighting in Côte d'Ivoire has halted traffic. The sale of 56 per cent of the national airline, Air Burkina, in February 2001 to a group controlled by the Aga Khan, as well as the collapse of Air Afrique, has helped Air Burkina to recover and it now flies to Senegal and will soon begin services to 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. Since 1999 and especially since September 2002, Burkina has tried to diversify its supply routes by using the ports of Tema (in Ghana) and Lomé (in Togo), both on the Gulf of Guinea. Businesses say both these countries have cheaper port services, better security and are easier to move around in than Côte d'Ivoire. Since the Ivorian attempted coup in September 2002, the two ports have been Burkina's only access to the sea.

Burkina Faso has one of the region's lowest levels of electrification (an average 10 per cent) combined with high cost — 86 CFA francs per kWh for standard current and 110 CFA francs for high voltage. Bobo Dioulasso was connected to the Ivorian grid in April 2000 and funding is being sought to extend lines to Ouagadougou by 2005. The link-up increased supply by more than 10 per cent in 2001 and the number of customers by 11.5 per cent. The government has also decided to up the capacity of the Ouagadougou power station by 30 mW, including 10 mW in 2002. But this project has not been implemented because of the World Bank's reluctance to commit funds on the eve of the sector's privatisation. Several small projects are also under way, such as boosting the grid in Ouagadougou and installing a 3 mW generating station in the northern town of Ouahigouya. But uncertainty about the form of privatisation has led to a wait-and-see attitude by *Sonabel*, which is in good shape.

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*, through its mobile phone subsidiary *Telmob*. 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. Since 23 September 2002, at the insistence of the telecommunications regulatory body *Artel*, the price of calls from fixed-line phones to mobile ones has been standardised, ending what *Telemob*'s rivals considered unfair competition (fixed-line calls were cheaper on the *Telemob* network).

The financial system is small but major reform of it began in 1991. Since then, the banks have prospered while competition between them has steadily grown. But though they have strong short-term liquidity, they lack long-term funds. Bank credit is also mostly directed to agriculture, mainly *Sofitex*. Other sectors criticise the reluctance to offer credit to them, but the banks say firms have only vague accounting and cite the restrictions imposed by the BCEAO. The absence of a mortgage market, itself linked with the country's lack of clear land titles, may also explain the dearth of credit.

Alongside the regular banks, significant 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 makes up for the lack of finance available to small and medium-sized firms in particular. Due to their rapid growth, micro-credit organisations face growing constraints in their financial operations 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 — have confirmed the dominance of his party (the *Congrès pour la démocratie et le progrès*). Despite Campaore's ascendancy, the country went through a turbulent period after the December 1998 murder of journalist Norbert Zongo, publisher of the newspaper *l'Indépendant*. The killing sparked strong protests by students, trade unions and ordinary people, joined by a political opposition smarting from crushing election defeats. The government defused the situation with political and institutional reforms and by proclaiming a National Day of Forgiveness on 30 March 2002 when President Campaore admitted the government's responsibility and apologised on behalf of himself and his predecessors to all victims of political violence since independence in 1960.

The events of 1998 also led to limiting the president to two terms of office (reduced from seven to five years), along with a new electoral law (including two-round voting in parliamentary elections) and a law on funding political parties officially aimed at increasing opposition participation in the political system so as to head off extremist positions. In January 2002, the house of representatives was abolished after the opposition criticised its role. The results of this political opening were clearly seen at the 5 May 2002 parliamentary elections, when opposition parties won many seats. The ruling Congress for Democracy and Progress dropped from having 101 of the 111 seats to only 57.

Foreign policy has recently taken two major turns. One is the desire to soothe tense relations with neighbouring Côte d'Ivoire, whose president, Laurent Gbagbo, made a lightning visit, only to see its effects largely cancelled out by the new disturbances in Côte d'Ivoire in September 2002. Burkina has also responded to repeated criticism from funding agencies by starting to distance itself from its old allies Liberia, Sierra Leone and Angola's Unita, thus strengthening its international credibility which had been badly damaged by charges of involvement in arms and diamond smuggling made by some creditors (backed up by a UN report at the end of 2000, but rejected in a second report in 2001).

The country tackled the problem of poverty relatively early. It 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 insufficiently co-ordinating and following up programmes. To fight poverty effectively, the government is counting on better information through its poverty monitoring centre, more funding thanks to the HIPC Initiative, and a vigorous civil society. But despite these efforts, the UNDP predicts that population growth and the effects of AIDS will see monetary poverty increase in the short term (until 2015), after which the standard of living should markedly improve.

Social statistics show a very poor health situation. Life expectancy is one of the lowest in the sub-region — 45.4 years. Infant mortality is lower than in Mali but still high at 86 per 1 000. Child mortality is very high, at 146 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 (a prevalence rate of 7.5, according to UNAIDS, while the UNDP gives a figure of more than 10 per cent for the end of 2000), due to the country's position as a regional crossroads but also perhaps because of better statistical reporting.

Health care is inadequate and varies greatly from region to region. Despite more medical centres (24 private hospitals and 72 maternity facilities were opened in 2001), fewer people are reportedly using them because they are too expensive. Trained personnel are lacking and health workers are unevenly spread throughout the country. The authorities responded in 2001 by setting up mobile HIV/AIDS units, charging only 1 000 CFA francs ($1.36) instead of the previous 25 000 CFA francs ($34.1) per test.

The authorities plan universal HIV/AIDS testing by the end of 2003 and have launched an information-driven prevention policy. A January 2002 survey by the National Committee to Fight AIDS found that 97 per cent of 800 households asked knew about the disease. Along with this good news, President Campaore had taken a strong stand in the anti-AIDS campaign, institutions have been open about the extent of the disease and the country has successfully raised money to fight it. All this makes Burkina a country of "good practices" that equips it to try to check the disease's spread.

Despite marked progress since the early 1990s, gross primary education enrolment is still a low 43.4 per cent in 2001, with big differences between boys and girls (only 37 per cent of whom are in school) and even more between regions, with enrolment less than 20 per cent in the Sahel region. Low enrolment is mainly due to poverty. Poor and often illiterate parents do not always realise the importance of schooling, instead seeing its cost as an obstacle. The education of a girl is also often regarded as either an investment benefiting her future in-laws or a diversion from her maternal functions. Low enrolment also has much to do with weak infrastructure, so classes are often too big, with an average size of 52 pupils[7] and some classes having as many as 150 in urban areas.

Since 1995, Burkina Faso has made determined efforts to develop basic education. The government plans to increase basic education's share of the total budget from 13 per cent in 1999 to 20 per cent by 2009, with the goal of having two-thirds of the population with primary education by 2010. A 10-year (2000-09) national education plan includes building 2 013 classrooms and training 2 067 new teachers each year, as well as opening 4 000 literacy centres. In 2001, the number of classrooms increased from 17 456 to 19 365 and 2 549 new teachers were recruited.

But these improved numbers mean quality suffers because of the government's limited budget. From 2002, for example, teachers will only get a year's training instead of the two they have had up to now, with much-discussed effects on the quality of education. The government is also handing over literacy centres to NGOs, which has led to at least temporary closure of some of them. Implementation of the 10-year plan is also behind due to political changes in early 2002 and lack of facilities in the countryside.

7. This is an improvement on the figure of 60 in the 1970s.

Cameroon

key figures

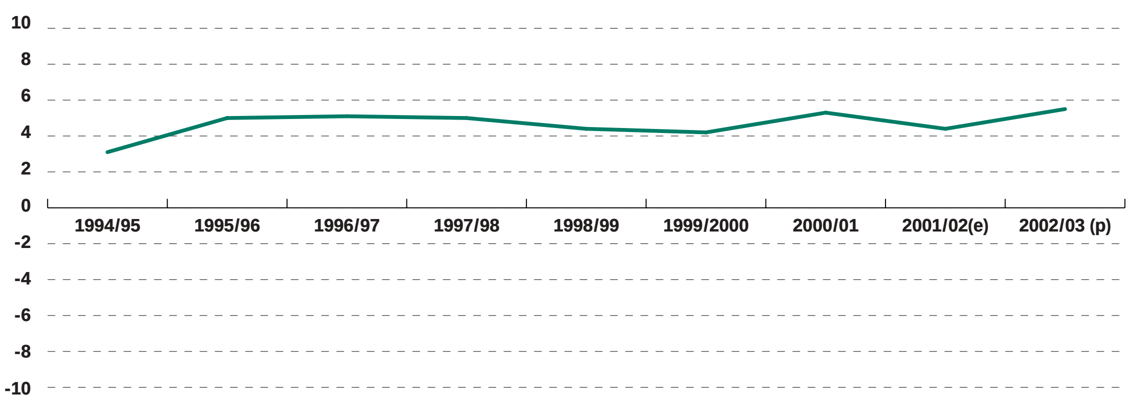
• Land area, thousands of km^2	475
• Population, thousands (2001)	15 203
• GDP per capita, $ (2001)	576
• Life expectancy (2000-2005)	50.0
• Illiteracy rate (2001)	23.0

Cameroon

SINCE DEVALUING ITS CURRENCY in January 1994, Cameroon's economy has rebounded with annual growth in the range of 4 to 5 per cent. It is this and the country's steady performance in recent years (despite unpredictable oil output) that has set Cameroon apart from its neighbours, highlighting its relatively diversified productive capacity. In the short term, the country is also benefiting from the construction of the Chad-Cameroon oil pipeline, which is providing a healthy level of investment. As a result, GDP growth is good at around 5.3 per cent in 2000/01 despite disorganisation in the forestry and the cocoa and coffee export sectors. Lower oil production from 2001/02, along with major breakdowns in electricity supply, problems with traditional exports and difficulties adjusting to current reforms, slowed growth in 2001/02 to about 4.4 per cent. In 2002/03, it may rise to 5.5 per cent as the positive effects of forestry reforms and privatisation come through and are set against a background of solid domestic demand arising from activity linked to the pipeline.

Relatively steady performance in recent years highlights Cameroon's diversified productive capacity

Figure 1 - Real GDP Growth



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

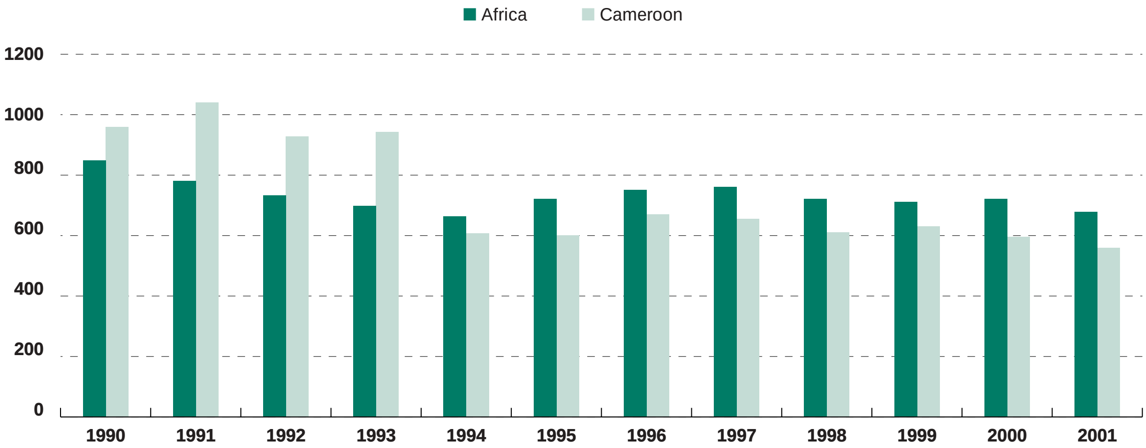
Recent Economic Developments

Following a drop in production and world prices, the oil sector shrank to only 5 per cent of GDP in value terms in 2001/02, compared with 20 per cent in the early 1980s. Production is expected to decline by about 9 per cent per annum between 2002/03 and 2006/07, though much higher prices could momentarily boost its GDP share, as happened in 1999/2000, when it nearly doubled after a sharp price rise. Oil also remains the main source of foreign exchange and projects linked to the sector, such as the Chad-Cameroon pipeline, still have a star role in the economy.

The first effects of the pipeline project can be seen in higher imports, plenty of private investment and the growth of traded services (especially commerce and transport). It has also brought a degree of inflation.

Agriculture remains a key sector of the economy making Cameroon, unlike its neighbours, self-sufficient in food. Over two-thirds of the working population are employed in agriculture, and the sector contributes about a quarter of value added and brings in a third of export earnings. Favourable weather conditions prevailing since the mid-1990s, have resulted in a steady increase in food crop production (5 per cent in 2001/02). In

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



Source: Authors' estimates based on IMF data.

contrast, export crops have suffered from low world prices (particularly affecting coffee), ageing plantations (with uncertainty regarding privatisation also affecting rubber) and disruptions in the cocoa and coffee sectors after liberalisation. As a result, young farmers are replacing export crops in favour of food crops. Export crops are expected to fall by 2 per cent in volume in 2001/02 and by more than 6 per cent in value.

Significant structural reforms have taken place in forestry. These have been aimed at increasing the sector's contribution to the country's economic and social development while safeguarding stocks by reducing felling. In order to facilitate the shift away from pure exploitation, a law was introduced in 1994 banning unprocessed log exports. Since this was implemented in 1999, 70 per cent of timber must be processed locally, and responsibility for maintaining forests accompanies logging concessions that are granted through public bidding. In response to this emphasis on processing, the number of sawmills has increased (the timber industry production index rose 12.5 per cent in third quarter 2001/02 year-on-year). Despite the professed intention of the government of stimulating local communities, most timber firms have set up shop near Yaounde and Douala, where logs are brought for processing. Sawmill capacity has quickly overtaken the rate at which concessions are granted, resulting in about 47 per cent of machinery lying idle.

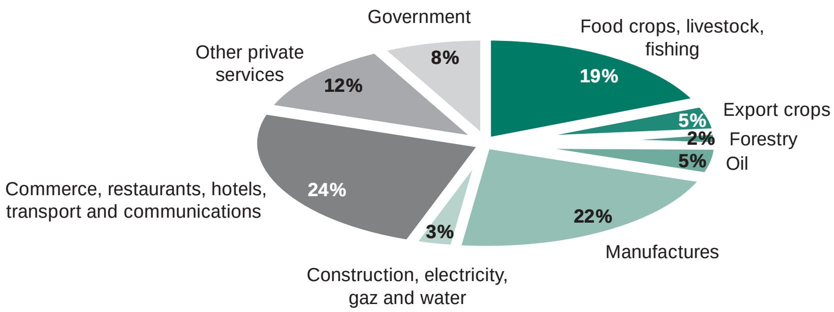
Such rapid industrial growth raises fears of over exploitation especially as regulation and enforcement are the reforms' weakest points. Enforcing logging regulations and monitoring sawmill volumes is extremely difficult, equal to the challenge of patrolling neighbouring borders (especially the Central African Republic)[1]. The reforms and the informalisation of the market are major causes of the fall in the volume of timber production (10 per cent in 2000/01 and 8 per cent in 2001/02).

In the secondary sector, the revival in public investment and consumption resulted in robust growth of construction and manufacturing since 2000. Electricity production however, dropped sharply in the first half of 2001/02 as a consequence of low water levels in hydroelectric dams following a very dry season. The drop – as much as 19 per cent in third-quarter 2001/02 and a total of 7 per cent over the first three quarters – cut industrial production, especially in the base metal industry.

For the second year running, the service sector was a driving force of the economy. The gradual recovery

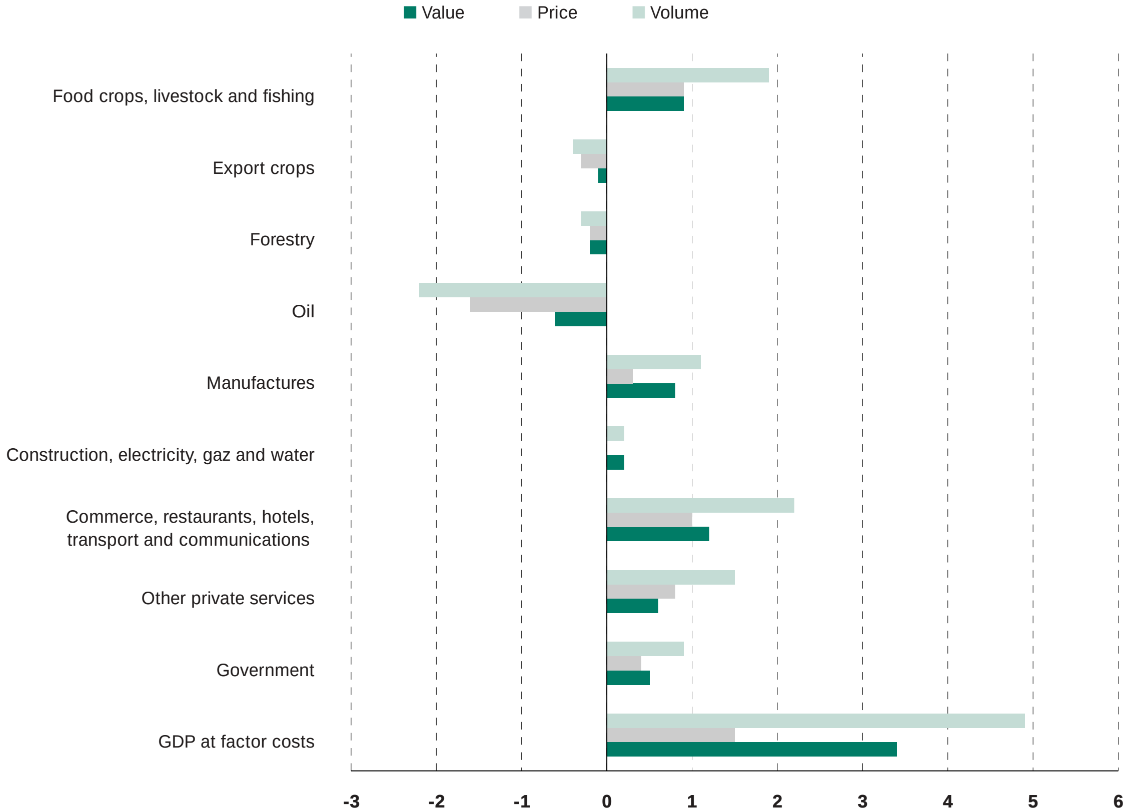
1. It is only on a regional basis that abuses can be effectively combated. To this end, the CEMAC countries declared their willingness to co-operate on joint forest preservation in Yaounde in 1999.

Figure 3 - GDP by Sector in 2001/2002



Source: Authors' estimates based on data from the *Direction de la Prévision*, Ministry of Economy and Finance.

Figure 4 - Sectoral Contribution to GDP Growth in 2001/2002



Source: Authors' estimates based on data from the *Direction de la Prévision*, Ministry of Economy and Finance.

in household purchasing power, the several events held in Yaounde and Douala and the beginning of redemption of domestic bonds boosted commerce, hotels and restaurants. Furthermore, road and port renovation and privatisation of mobile phone networks underpinned the vigour of the transport and communications sector. The construction of the Chad-Cameroon oil pipeline also helped the growth of transport, commerce and other traded services. Pushed by economic crisis, the informal economy has expanded to about 51 per cent of GDP, according to the National Statistics Institute, and now generates more than 80 per cent of new jobs.

Since 2000/01, non-oil growth has mainly been fed by domestic demand with a marked increase in private investment stimulated by the Chad-Cameroon pipeline.

Table 1 - Demand Composition (percentage of GDP)

	1994/95	1998/99	1999/2000	2000/01	2001/02 (e)	2002/03 (p)
Gross capital formation	**14.5**	**18.7**	**16.5**	**17.8**	**18.9**	**18.9**
Public	1.2	2.3	1.4	2.1	1.9	2.4
Private	13.3	16.4	15.1	15.7	17.0	16.6
Consumption	**80.5**	**81.6**	**79.7**	**79.6**	**82.4**	**83.3**
Public	8.6	10.0	10.2	11.2	11.3	11.6
Private	71.9	71.6	69.5	68.4	71.2	71.7
External sector	**5.0**	**-0.3**	**3.9**	**2.6**	**-1.3**	**-2.2**
Exports	25.7	24.4	30.7	31.8	27.0	24.1
Imports	-20.7	-24.7	-26.8	-29.2	-28.3	-26.4

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

Though private investment increased in value terms by an estimated 12 per cent in 2001/02 (representing 18.9 per cent of GDP) compared to 17 per cent in 2000/01 (representing 17.8 per cent of GDP), it remains much lower than in the golden age of the early 1980s, when the investment rate was around 25 per cent. Improvements in civil service salaries, brought about by pay rises (in 1997 and 2000) and the gradual clearing of arrears, have boosted consumption. This and the increase in investment sparked a big increase in imports, which poor export performances in 2001/02 and 2002/03 failed to offset, resulting in an external deficit.

Macroeconomic Policy

Fiscal and Monetary Policy

Cameroon signed a new agreement with the IMF in December 2000 giving it access to $139 million in Poverty Reduction and Growth Facility (PRGF) funds over three years. This policy switch led to a notable improvement in government finances despite the low price of oil and a heavy debt service burden. However, the budget austerity measures that this agreement entails were only possible with a huge cut in capital spending, leading to serious neglect of national infrastructures.

Since 1994, the budget has been helped by major structural reforms such as the 1999 introduction of a value-added tax, which increased both the receipts and transparency of non-oil tax revenues. With a tax yield of about 5 per cent of GDP, Cameroon does better than most sub-Saharan African countries. Openness about oil revenue, which is still a key to budgetary balance, has been improved with annual audits of the national oil company SNH *Société Nationale des Hydrocarbures.*

In 1999/2000, higher oil prices produced a budget surplus and in 2000/01, oil revenue continued to support government revenues despite a drop in oil prices. This and higher non-oil tax revenue enabled the target revenue-to-GDP ratio to be surpassed by 0.3 percentage points. In the budget categories of consumption of goods and services, transfers, and wages and salaries, however, slight overspending took place. Though domestic investment advanced more slowly than expected because of delays in implementing the Heavily Indebted Poor Countries (HIPC) initiative, it still registered an increase over previous years. In all, the 2000/01 fiscal year was good, with a strong overall surplus (2.4 per cent of GDP) which was 0.2 percentage points above the target ratio. In recognition of this, the IMF approved the release of the second PRGF tranche of $20 million in late January 2002[2].

The 2001/02 budget year was more difficult, mainly due to a drop in oil revenues. The fall in production – from 41.7 million barrels in 2000/01 to 38.2 million

2. By the end of September 2001, Cameroon had met all the quantitative targets imposed by the PRGF. At the end of March 2001, the only target not met was net bank credit to the government. This was due to delays in privatising Camtel.

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

	1994/95	1998/99	1999/2000	2000/01	2001/02 (e)	2002/03 (p)
Total revenue and grants[b]	**13.1**	**15.7**	**18.8**	**21.0**	**19.8**	**19.8**
Oil	2.6	2.5	5.6	6.9	5.2	5.2
Taxes	9.3	12.1	12.1	12.7	13.2	13.2
Total expenditure (and Net lending)[b]	**16.2**	**18.9**	**17.4**	**18.6**	**15.4**	**17.5**
Current expenditure	15.0	15.2	14.5	15.1	12.2	13.8
Excluding interest	*8.6*	*10.0*	*10.2*	*11.2*	*10.8*	*11.1*
Wages and salaries	4.7	5.1	5.0	5.3	5.6	5.7
Interest payments	6.4	5.2	4.4	3.9	1.4	2.7
Capital expenditure	1.1	3.6	2.7	3.3	2.9	3.7
Primary balance	**3.3**	**2.0**	**5.7**	**6.3**	**5.8**	**5.1**
Overall balance	**-3.1**	**-3.2**	**1.4**	**2.4**	**4.4**	**2.4**

a. The financial year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on data from the IMF and the *Direction de la Prévision*, Ministry of Economy and Finance.

in 2001/02 – combined with lower prices resulted in a 90 billion CFA franc ($126 million) loss for the government. Though prices recovered from March 2002, oil revenues could not be made up. However, healthy non-oil revenues compensated and the 2001/02 budget goals were largely met. Better organised collection, strong consumer demand and higher imports all contributed to improved tax receipts. The programme drawn up with the IMF paid particular attention to strengthening fiscal administration. Short to medium-term goals of increasing forestry revenues and reducing VAT exemptions (under a five-year plan) were set. In addition, a new basic tax law was introduced in 2001/02 and in the longer term, income tax will be thoroughly reformed and a property tax introduced.

The government has managed to keep current spending within the limits set. A 10 per cent increase in the wage bill (instead of an anticipated 15 per cent) covered the salaries of planned new social services sector recruits and the new status of civil servants. Capital spending was also well below the target because no HIPC funds were engaged during the period, although disbursement of 95 billion CFA francs ($133 million) had been scheduled. Better management of expenditure continues to be a focus of public finance reforms, with priority given to building closer ties between the budget and the treasury. Budget nomenclature has already been standardised between the two departments and a computer link-up was established between central and provincial authorities in late July 2002. The government has also pledged to establish a completely integrated and computerised budgetary and accounting information network by September 2003. This will keep track of all revenue and expenditure operations from the time of commitment to the moment of payment.

The implementation of a January to December fiscal year (from the previous June to July base) will also take place in January 2003. The government decided to manage the transition period, from July to December 2002, with pro-rata current expenditure based on the preceding budget. Rather than new commitments, the investment budget provides for continuing those unfinished projects from 2001/02, especially those involving HIPC funds.

Like the other CEMAC countries, Cameroon has an exchange rate pegged to the euro and a monetary policy controlled by the BEAC, leaving fiscal policy as the government's main economic instrument. At the time of devaluation in 1994, annual inflation was 32.5 per cent but it has since fallen, reaching a low of 1.2 per cent in 2000. The recovery of investment and consumption levels from the end of 2000 however, has resulted in inflationary pressures on food and construction materials. This effect was exacerbated by bad weather in the northern part of the country, increased demand from neighbouring countries and a curb on imports of frozen meat for health reasons. Inflation was around 2.8 per cent in 2000/01 and pressure continued into 2001/02 on account of strong domestic and sub-regional demand and price increases linked to the construction of the Chad-Cameroon pipeline. Inflation is estimated at 4.5 per cent for 2001/02. It should fall to 3.4 per cent in 2003 with a strong agricultural performance expected and less pressure on prices from the pipeline construction.

External Position

Cameroon's trade structure is broader than that of its neighbours, with a diversification index rating of between 5 and 7. Oil usually accounts for a third of exports by value, but in 2000 and 2001, a sharp price increase resulted in oil exports comprising nearly half of GDP. Export crops account for another third by value, though sectoral problems cut this share to 20 per cent in 2000 and 2001. The range of crops is quite wide, including cocoa (a third), coffee (20 per cent), cotton (20 per cent), bananas (10 to 15 per cent), rubber (7 per cent) and palm oil (1 per cent). The other major export is timber, usually about 20 per cent of all exports (16.8 per cent in 2001).

Cameroon has an overall trade surplus but this masks a decline of trade in non-oil items which has taken place since 1994/95. Traditional export crops have been abandoned because of poor world prices and production problems. The Asian crisis slashed demand for timber in 1999 and despite recovery in 2000, forestry sector reforms have significantly reduced supply in the short term. At the same time, imports fuelled by demand have increased. In 2001/02, lower oil production and problems in traditional export sectors sharply reduced the trade surplus, and this may translate into a slight deficit in 2002/03. The surplus is also reduced by heavy imports in connection with the Chad-Cameroon pipeline, by robust consumption, and by availability of the first instalment of funding from the HIPC initiative. However, the capital account balance is expected to improve as privatisation and foreign direct investment increase.

Table 3 - Current Account (percentage of GDP)

	1994/95	1998/99	1999/2000	2000/01	2001/02 (e)	2002/03 (p)
Trade balance	7.3	2.2	6.6	6.0	1.2	-0.5
Exports	20.8	18.3	24.0	25.0	20.6	18.3
Imports	-13.5	-16.1	-17.4	-19.0	-19.4	-18.8
Services balance	-2.3	-2.4	-2.7	-3.3		
Factor income	-6.7	-5.1	-6.7	-5.8		
Current transfers	0.8	1.1	1.1	1.0		
Current account balance	**-0.9**	**-4.3**	**-1.7**	**-2.2**		

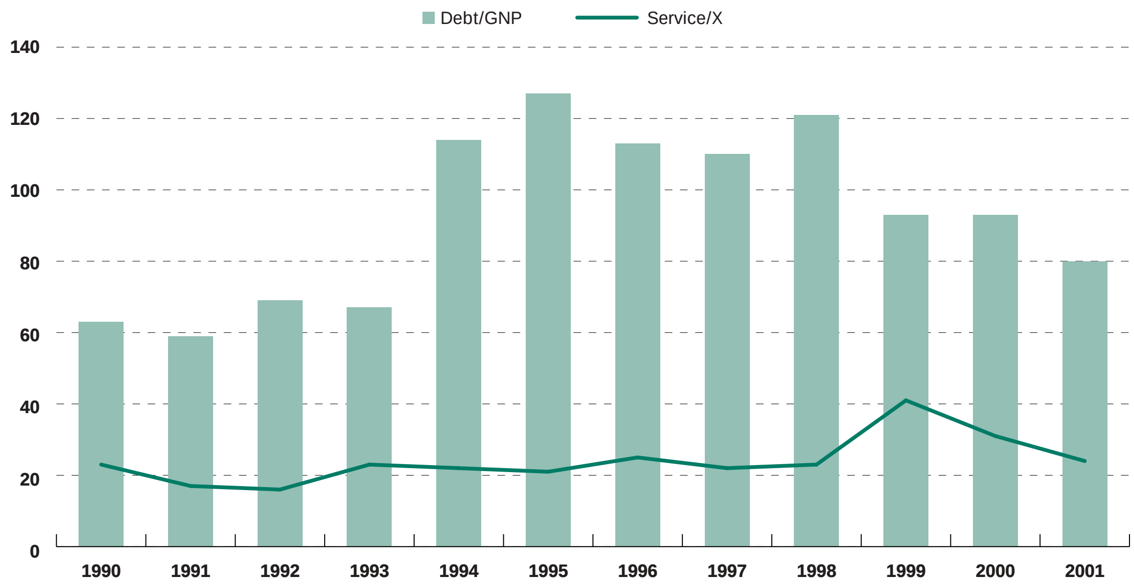
Source: Authors' estimates and predictions based on IMF data.

For many years, Cameroon benefited from far fewer soft loans than other members of the franc zone. The collapse of oil prices in the 1980s also led it to accumulate a large external debt, which had reached 130 per cent of GDP prior to devaluation. Though this was significantly reduced by devaluation, external debt still amounted to 80 per cent of GDP in 2000/2001, and servicing absorbed a third of Cameroon's national budget.

To lighten the debt burden on the economy, Cameroon was declared eligible for the Enhanced HIPC initiative and an October 2000 decision granted it a debt cancellation of $2 billion in nominal terms ($1.26 billion net present value). This should reduce the amount of government revenue spent on debt servicing from 23 per cent in 2000 to 10 per cent by 2008 and cut the debt-to-exports ratio from 200 per cent in 2000 to 100 per cent in 2007.

Despite a year's delay (the initial deadline was September 2001), all bilateral agreements with the Paris Club countries have now been finalised. France

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



Source: World Bank.

has also pledged to provide a debt-relief-for-development contract, cancelling all Public Development Aid (PDA) debts remaining at completion point. Cameroon has begun receiving interim relief that should come to 214 billion CFA francs ($300 million) over three years. However as the projects were not yet ready, 37 billion CFA francs (about $50 million) was been rolled over from 2000/01 to 2001/02. So in late October 2002, more than 86 billion CFA francs ($120 million) was available at the BEAC. Though an initial group of projects — valued at 35 billion CFA francs ($49 million) — was approved at the end of 2001, only one disbursement of 2 billion CFA francs ($2.8 million) has been made, highlighting the country's difficulty in absorbing funds.

Completion is still contingent on drafting the final version of a Poverty Reduction Strategy Paper (PRSP), implementing it for one year, maintaining a stable macroeconomic environment as part of the Poverty Reduction and Growth Facility (PRGF), continuing reforms involving privatisation, transport, forestry and good governance, and respecting social sector targets.

Delays, especially with the PRSP, have arisen from problems in analysing household surveys and in holding local and parliamentary elections. Government authorities have nonetheless committed to completing the PRSP by the end of 2002.

In May 2001, the government proposed to the London Club to buy back its commercial debt (which stood at 584 billion CFA francs, i.e. $810 million on 31 December 2000), under the International Development Association rules[3]. After lengthy negotiations, an agreement was reached in May 2002 for the country to buy back 14.5 per cent of the principal with all interest being cancelled.

Cameroon's domestic debt was 1.2 billion CFA francs ($1.7 million) at 31 December 2000. Payment arrears are being cleared. The non-structured part of the debt is being paid off in instalments, scheduled until 2005. The first redemption of salary arrears bonds pertaining to the structured part of domestic debt took place in June 2002, with a payment of 29 billion CFA francs ($40 million).

3. Buying back the principle at 12 per cent of its value, with cancellation of interest.

Structural Issues

Broad reforms are under way to restructure the banking sector, facilitate privatisation and improve national infrastructure. Despite delays, the targets of the 1997 to 2000 programme were achieved and prospects are good for the 2001 to 2003 programme.

Privatisation came fairly late to Cameroon (in 1995) and it posed a particularly big challenge when it did, given the extensive size of the public sector. 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 with companies in the sector being either sold or disbanded. A road maintenance fund has also been set up.

A third wave of privatisation, begun in 1999, targets the major public services. Both the size and complexity of the enterprises, and problems with buyers, have led to delays. Telcel was provisionally selected to take over Camtel (fixed-line phones) but withdrew after its partner, Orascom, preferred deals elsewhere. The replacement bidder, Mont Cameroun, submitted an updated tender in February 2002 but subsequently failed to confirm its bid. The procedure was thus ended. The government asked Ondéo-Service (formerly Lyonnaise des Eaux) to amend its bid for Snec (water), which had been deemed inadequate. The firm submitted an updated tender in December 2001, and negotiations to draw up a contract are under way. These are likely to be difficult, given the strong criticisms other privatisation deals have encountered. AES Sirocco, which took over Sonel (electricity) on 18 July 2001 has been particularly criticised by local people for its practice of flooding to lower water levels in dam lakes.

A final series of privatisations involving the big national trading companies began in 2002. A number of privatisation studies are under way, with a consultant having been selected to analyse the state of the national airline Camair, and the national oil storage firm SDCP being surveyed in advance of a call for tender in February 2003. In the case of Sodecoton (cotton), agreement has been reached in a lawsuit contesting the legality of an initial share offering, thus enabling privatisation planning to commence.

In agro-industry, preliminary studies for privatising the Cameroon Development Corporation (CDC) have been completed and sectoral bids were invited at the end of 2000. However, response has been slow, and only the tea sector received a tender (by the South African firm Probon Sinex, which took 65 per cent of the capital). Interest was shown in other sectors but candidates criticised the unclear sectoral divisions. In response to these, land and environmental surveys were conducted to clarify the separation of activities and to make calls for tender more attractive. The commercial and industrial activities of the port of Douala are also set to be privatised as per a 1998 framework law. Amendments to this sanctioned a delay until the end of December 2002, but bids are about to be invited.

One of the successes of the 1997 privatisation programme was the restructuring of the banking sector and its general restoration to health. However, in 2001 three of the 10 banks (with 10 per cent of total deposits) were still not respecting prudential ratios in their funds. The financial system is developing and the Douala Stock Exchange was due to open in December 2002. Technical partners – the *Banque des Règlements* and the *Dépositaire Central* – have been chosen and the regulatory Financial Markets Commission (CMF) is in place. The sole doubts remaining are which stocks will be listed as, as yet, there are few visible candidates. Competition from CEMAC's regional stock exchange in Libreville is also a worry.

The Cameroonian economy still lacks credit infrastructures. Though banks offer low-interest loans to some large companies, and local co-operatives hold some private savings and fund small enterprises, the intermediate sector of small and medium-sized firms and those seeking long-term funding often have nowhere to turn. Legal inadequacies compound the problem, as fears of arbitrariness have been raised by court-ordered seizures of bank deposits during litigation suits. The government has acknowledged the threat this poses to banking-sector stability and has investigated 48 of the seizures. The Minister of Justice's investigations revealed procedural errors in many of these cases, leading several other legal actions to be dropped. Steps have been taken to strengthen laws.

Cameroon's infrastructure is still very poor, despite the marked improvement in rail service since Camrail's privatisation. Several infrastructure programmes are under way. A number of major road projects have just been completed, including the repair of the Nsimalen-Ebolowa-Amdam road and the resurfacing of several roads in the north. Funded by the European Union, these and other projects will improve links in the sub-region. Funding was also obtained in 2002 to modernise the roads in Douala. Much effort has gone into improving ports, with charges greatly reduced in 1997 and a unified administrative desk set up in Douala in 2000. The privatisation of commercial activity is now being considered and the security of the customs accounting system is being reinforced.

Political and Social Context

Though in macroeconomic terms, public finances have been stabilised and structural reforms started, governance remains Cameroon's weakness. Corruption and poor resource management were specifically cited as major causes of poverty in the 2001 household survey. Despite the establishment of anti-corruption committees within ministries and some arrests and prosecutions, government services still suffer from widespread corruption. The country's image is consequently quite negative. In Transparency International's 1998 and 1999 survey of the most corrupt countries measured by public perception, Cameroon was worst, out of 85 and 99 countries respectively. A slight improvement was observed in 2000, when it moved up on the 10-point index to 2.0 (from 1.4 in 1998), placing it 82nd out of 88 countries. Further progress was recognised in 2002, when it scored 2.2, though it still came only 89th out of 102 countries.

Several reforms have improved transparency, including the use of internationally-recruited independent observers to monitor handling of state procurement contracts. A supervisory body was also established in 2002 to provide information about procedures and to help draw up tenders. The government asked an independent body to audit its 2000/01 supply contracts, while plans were announced to establish an auditing service in September 2003 to monitor public accounts. A 19-member national committee was set up in June 2001 to ensure open and efficient management of funds released under the HIPC initiative. Legal reforms have also begun, starting with an audit of the judiciary. However, the consultants involved twice failed to present an adequate report and the government sought new auditors.

Cameroon is an island of political stability in a very turbulent region. The country has officially been a democracy since 1990, when parliament endorsed freedom of association and creation of political parties. Since 1991/92, elections have been held fairly democratically despite opposition challenges to the electoral law and to voter registration methods. In May 2002, preparations for local and parliamentary elections the following month involved a shake-up in the leadership of the ruling party, the *Rassemblement Démocratique du Peuple Camerounais* (RDPC), which was not matched by a reorganisation in the opposition parties. The RDPC won a big parliamentary majority (149 of 180 seats). Voter apathy was rife however with half the electorate not bothering to register and the other half increasingly disinterested by a political class they considered irresponsible and an opposition in the process of crumbling.

Cameroon has sought international credibility (the recent elections were monitored by foreign observers) and made efforts to integrate more fully in the globalisation process. However, relations with Nigeria are complicated by a persistent border dispute over the oil-rich Bakassi Peninsula. The International Court of Justice ruled in October 2002 that Cameroon had sovereignty over the peninsula and instructed the UN secretary-general to see both sides respected the ruling. If these recommendations are accepted by the two countries, it would be a boost for international conflict resolution and for the region's future stability.

Cameroon has better health and educational indicators than the rest of sub-Saharan Africa. Infant mortality is 79.3 per thousand, slightly lower than in Côte d'Ivoire, and life expectancy is 50 years. Net primary school enrolment was about 79 per cent in 2000/01, according to the 2001 ECAM II household survey, with a resulting fairly high literacy rate of around 68 per cent. The long economic crisis that began in 1985 has greatly limited these social performances however. Government shortcomings[4] have caused a major deterioration in social services (and an increase in their cost) and growth of the informal sector.

Gross primary school attendance is thought to have dropped by 25 percentage points between 1985 and 1995. However, living standards have much improved since 1996. Visits to health centres have increased, from 11.5 to 13.4 per cent of the population in 2001, along with access to drinking water (44.2 per cent to 50.5) and electricity supply (37 per cent to 46.1). Primary school attendance has not markedly improved however.

About 40 per cent of the population were living below the national poverty line[5] in 2001, according to ECAM II, which was a 10-point reduction in poverty since 1996 (ECAM I)[6]. The government statistics office notes however that this improvement is overall and has not reduced inequalities in the country. Sharp regional disparities are visible in Cameroon also existing between town and country and men and women. Rural areas tend to be poorer than urban ones. In the regions of Douala and Yaounde and towns in the southwest, centre and east and along the coast, fewer than 20 per cent of people live below the poverty line, compared to a poverty rate of 47 per cent in the countryside. These inequalities show up in the social indicators. Vaccination of young people aged between 12 and 23 years is 67 per cent in towns (75 per cent in Yaounde) but only 50 per cent in rural areas. Net primary school enrolment is 90.5 per cent in towns (96 per cent in Douala and 94 per cent in Yaounde), but only 73.5 per cent in the countryside. Urban literacy is 87.8 per cent compared with a rural figure of 55.7 per cent.

About 40 per cent of household heads surveyed in ECAM II said unemployment was the main cause of poverty. However, joblessness, as strictly defined by the ILO, is only 7.2 per cent (18.6 in towns and 2.1 per cent in the countryside). Using a broader definition to include the long-term unemployed no longer searching for work, it rises to 16.6 per cent (32.3 per cent urban and 8.6 rural), with Douala (38.3 per cent) and Yaounde (34.5) worst affected. However, the household expenditure survey done in Yaounde and Douala in 2000 showed a drop in ILO-defined unemployment since 1996, from 30 to 14 per cent in Yaounde and from 23.3 to 18 per cent in Douala[7]. ECAM II seems to indicate no clear link between unemployment and poverty, since the poorest families are mostly employed farmworkers.

4. More than half of all social services are now supplied by the private sector as the government has gradually offloaded them.

5. Defined as an annual income of less than 232 457 CFA francs ($325).

6. An approximate figure, since the two surveys are not directly comparable.

7. ECAM II gives figures of 25.6 per cent for Yaounde and 21.5 per cent for Douala, which is a smaller drop.

Côte d'Ivoire

key figures

• Land area, thousands of km^2	322
• Population, thousands (2001)	16 349
• GDP per capita, $ (2001)	657
• Life expectancy (2000-2005)	47.9
• Illiteracy rate (2001)	51.6

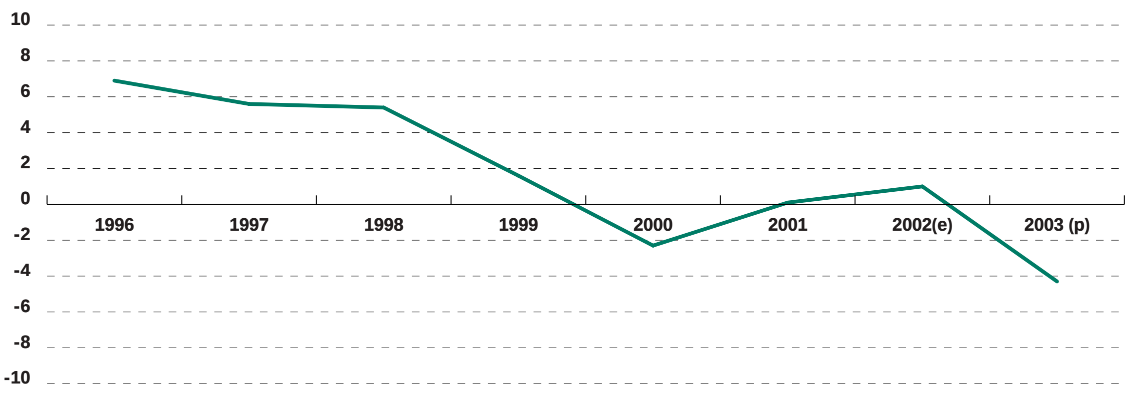
THE ECONOMY IMPROVED SLIGHTLY in 2001, showing a 0.1 per cent growth in real GDP after a 2.3 per cent drop the previous year, as the 1999/2000 political crisis receded. Recovery was due to better macroeconomic management, further liberalisation of the primary-product export sub-sector and some improvement in the political climate, bringing resumption of foreign aid. However, the country is now in the grip of a new political crisis, although the reconciliation efforts have raised hopes.

The latest crisis, which began with the attempted coup of 19 September 2002, is especially unfortunate because prospects were otherwise good. Despite the world economic slowdown, some of these trends could have significantly boosted the economy. The country would have gained from the better world cocoa prices and from the 2002-04 Poverty Reduction and Growth Facility (PRGF) negotiated with the IMF that would have attracted more foreign capital.

Côte d'Ivoire's inability to resolve its crisis affects both its own economy and those of its neighbours

Growth is now expected to fall to less than 1 per cent in 2002 from an earlier forecast of 3 per cent. The economy, already battered by the lingering political crisis, will see the recovery that began in 2002 under siege at all levels. The crisis has almost totally halted production (of tobacco, cotton, sugar and cashew nuts) in the rebel-held areas. Other crops (cocoa and coffee) that are outside the conflict zone have marketing problems because of the crisis, but the late 2002 harvests, underpinning exports in 2003, should be less affected.

Figure 1 - Real GDP Growth



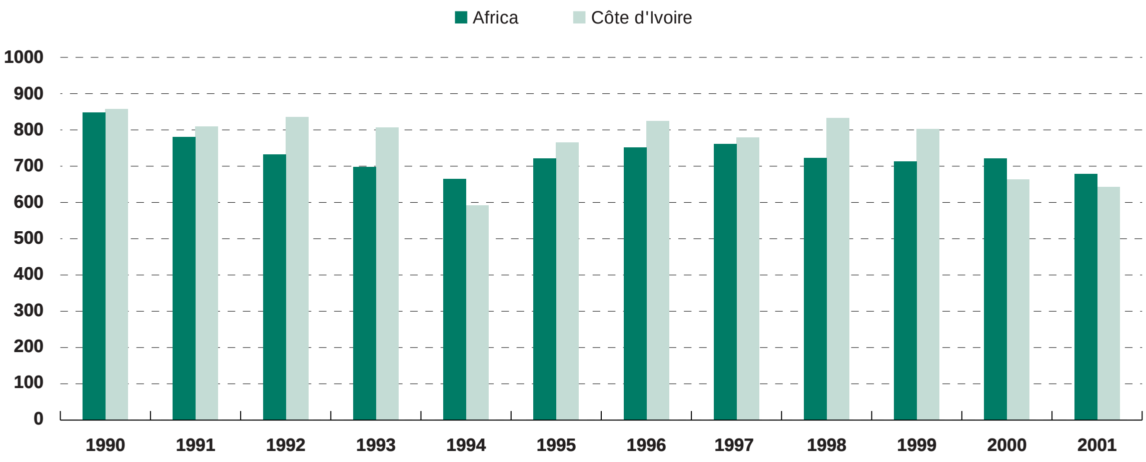
Source: Authors' estimates and predictions based on data from Ministry of Economy and Finance.

If the crisis continues, the country will lose long-term credibility in the eyes of the international financial community. GDP will probably shrink by 4.3 per cent in 2003. Sustainable economic recovery depends on urgently rebuilding national unity and reducing poverty, which must be the priority of the country's leaders.

Recent Economic Developments

The primary sector accounts for a quarter of GDP but is even more important in terms of jobs, employing 60 per cent of the male and 75 per cent of the female working population. The economy thus remains dominated by agriculture.

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



Source: Authors' estimates based on IMF data.

Sectoral performances were uneven in 2001. Primary sector growth was still high, the secondary sector began improving again and the tertiary sector grew faster than before. The sectoral contribution to GDP was mostly unchanged, except for a small increase in the primary sector's share.

Growth in the primary sector, which is mostly food and export crops, slowed somewhat to 6.4 per cent (down from 6.7 per cent in 2000). Export agriculture's share of GDP remained steady, while that of food crops rose to 15 per cent (up from 14.1 per cent in 2000). This was due to a fall in cash crop production, led by cocoa, whose output shrank 7.5 per cent after a 47 per cent increase in 2000. The 1999 harvest was poor because of the political crisis in December, making 2000 a freak year.

Cash crop production generally declined in 2001 – except for rubber (up 5 per cent) and bananas (up 4 per cent) – due to the drop in coffee and cocoa output. Cocoa production was 1 026 000 tonnes (down from 1 114 300 in 2000), largely due to a shortage of labourers during the growing season because of a shortage of immigrant workers affected by the political troubles.

Coffee output was also poor, falling sharply to 226 500 tonnes (from 342 800 the previous year) on account of small yields from ageing trees and expected lower world prices that encouraged some growers to turn to more profitable crops such as cocoa or food crops.

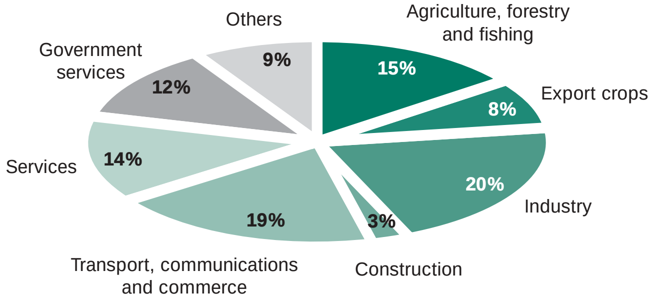
Export crop forecasts for 2002 are not good, though the weather before the September coup attempt promised a record cocoa crop. The political crisis, fuel shortages, lack of manpower and marketing problems will hit production of coffee, cocoa and pineapples, as well as other crops (which are in the conflict zone) such as cotton, sugar cane and tobacco.

Food crops were 15 per cent of GDP in 2001 and, with fishing, 60 per cent of value added in the primary sector, registering growth of 11.2 per cent on the year. This was mainly due to higher food crop production, especially manioc, whose output topped 3 155 100 tonnes (2 015 500 in 2000). This was accompanied by on average 4.9 per cent better prices to the farmer, partly due to exceptional consumer demand. Before the September events, higher primary sector production had been expected in 2002 because of better weather. Most food crop production is in the conflict zones, so prospects are now very uncertain.

The performance of the secondary and tertiary sectors was also badly hit by the crisis and most firms reported a fall in turnover of about a third.

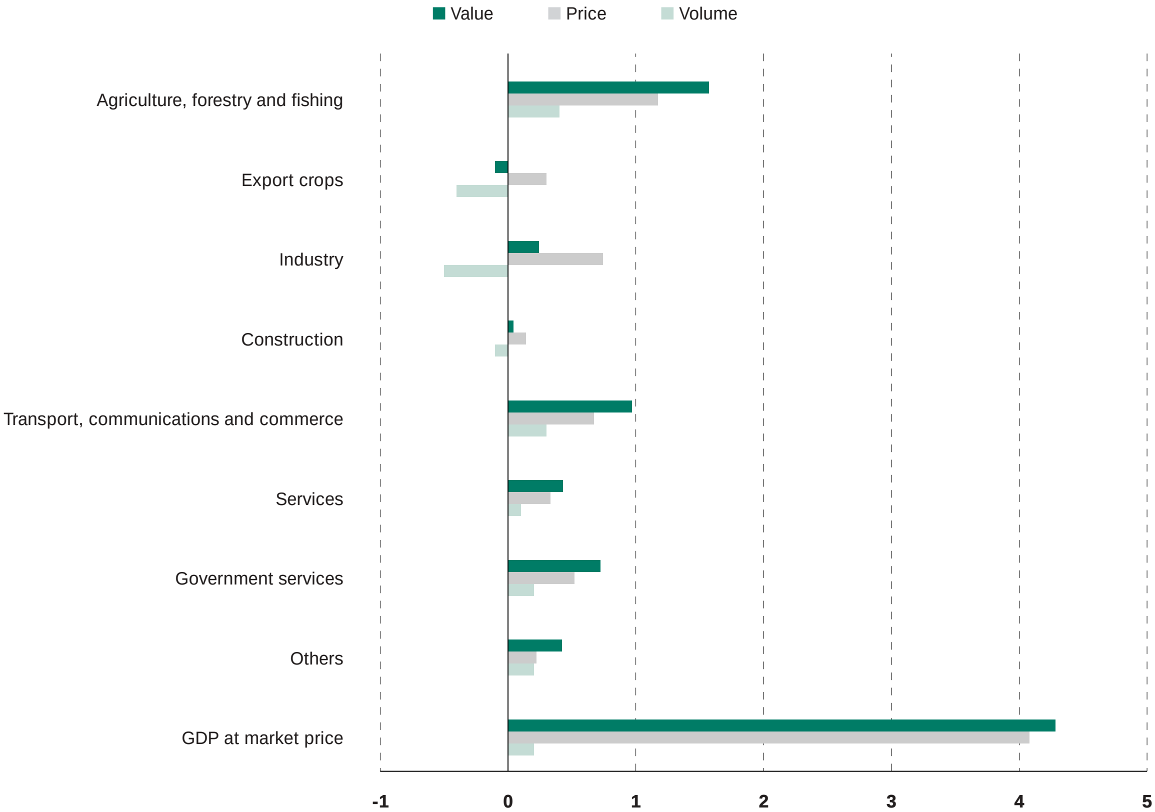
The secondary sector began to recover in 2001 (+1.1 per cent) after a 13.1 per cent slump the previous

Figure 3 - GDP by Sector in 2001



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

Figure 4 - Sectoral Contribution to GDP Growth in 2001



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

year. The construction industry stagnated (3 per cent of GDP) and a better performance from food processing was still key to the sector's overall result. Strong exports and increased domestic demand also buoyed the sector. Because of the September events, however, its growth may not exceed 1 per cent in 2002 due to a drop in domestic demand and supply problems with neighbouring countries.

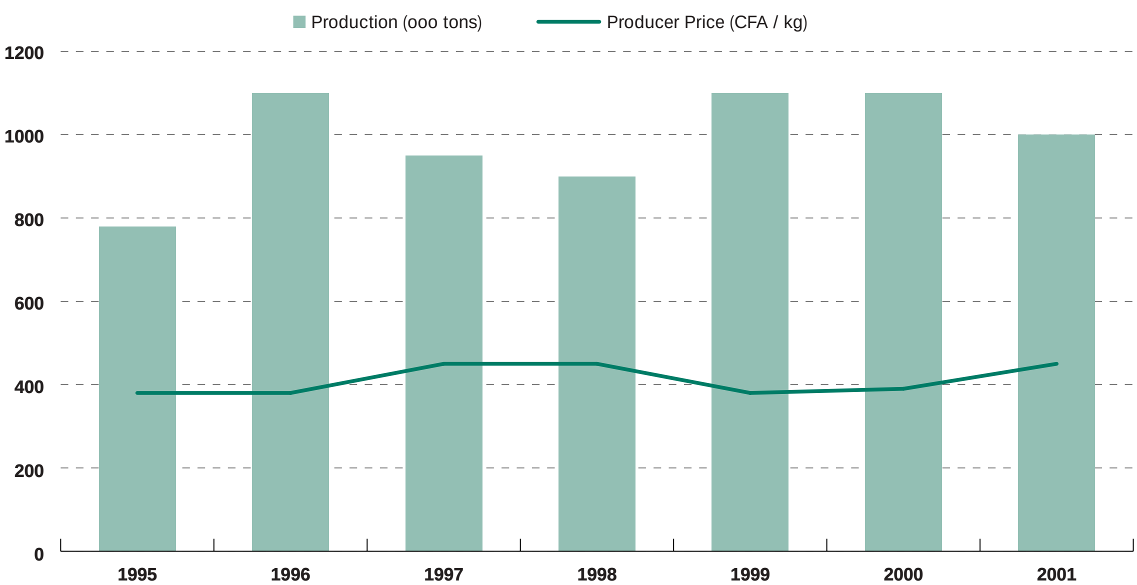
Industries are variously affected according to whether they are inside or outside the conflict areas. Most firms inside are concentrated in the centre or north of the country and are mostly processors of agricultural products such as cotton, tobacco and sugar or engaged in related activity such as packaging. Companies outside but with important ties to those inside are suffering indirectly because their factories are not getting raw materials and other supplies and have been hit by lower consumer demand.

Before the crisis, the secondary sector had been expected to grow 7.8 per cent in 2002 – 4 per cent in food-processing, 6 per cent in other industries and 9 per cent in construction (where increased public spending had been anticipated).

The tertiary second did better in 2001, growing 4.4 per cent after a drop of 2.5 per cent in 2000. Its structure was stable in terms of GDP contribution, which totalled 45 per cent.

As in other sectors, prospects are now poor. The new crisis since September 2002 and the increasing mood of uncertainty has meant timid government investment since December 1999 (+1.7 per cent in 2001). The 2002 target of 5.5 per cent, based on planned major public investments in trade and transport and a recovery of final consumption, now seems remote. The railway company, Sitirail, has suspended its service

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



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

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Gross capital formation	**15.6**	**13.2**	**10.5**	**10.9**	**9.6**	**8.9**
Public	5.1	4.3	2.6	1.7	1.5	1.4
Private	10.5	8.9	7.9	9.2	8.0	7.5
Consumption	**77.1**	**77.8**	**81.2**	**80.6**	**80.8**	**85.8**
Public	10.6	14.6	13.7	13.7	14.0	15.9
Private	66.5	63.2	67.5	66.9	66.8	69.9
External sectors	**7.3**	**8.9**	**8.3**	**8.5**	**9.6**	**5.3**
Exports	41.8	39.7	39.9	40.2	39.7	35.7
Imports	-34.4	-30.8	-31.6	-31.7	-30.0	-30.4

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

between Côte d'Ivoire and Burkina Faso and port activity in Abidjan has fallen.

Total final consumption grew 11.3 per cent in 2001, boosted mainly by private consumption, which increased by 12.1 per cent, while public consumption rose 9.5 per cent. Final consumption remained the major component of demand, rising to 86.7 per cent (up from 81.2 per cent in 2000). These results were due to increased civil service salaries and higher field prices offered to cocoa farmers.

Investment, mostly by the private sector, fell further to 10.9 per cent of GDP (from 10.5 per cent in 2000 and 11.6 per cent in 1998), due to the drying up of external funding in 2000 and only a tiny recovery in 2001, to make a total of 41.7 million CFA francs instead of an expected 130.3 million.

The trade surplus slightly improved to 8.5 per cent of GDP (8.3 per cent in 2000). The September events should lead to revision of government spending priorities because of problems of carrying out planned investment, especially in the conflict area. Outside funds will shrink further if the crisis continues. Private sector demand may also be undermined by closure of some firms, by layoffs and by credit difficulties for companies in the cocoa/coffee sector that rely on loans from the *Caisse autonome d'amortissement*.

Macroeconomic Policy

Fiscal and Monetary Policy

Satisfactory implementation of the July-December 2001 interim programme allowed external and internal debts to be reduced and the government was able to negotiate a three-year Poverty Reduction and Growth Facility (PRGF) with the IMF in March 2002. Côte d'Ivoire also qualified again for relief under the Heavily-Indebted Poor Countries (HIPC) initiative, with the completion point set for December 2002.

The overall balance turned positive in 2001, with a 0.9 per cent of GDP surplus, compared with a 2.3 per cent deficit the previous year, due to higher tax revenue and lower capital expenditure.

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Total revenue and grants[a]	**20.7**	**17.3**	**16.8**	**17.5**	**17.1**	**17.2**
Taxes	16.3	14.9	14.3	14.8	14.6	14.8
Grants	0.6	0.8	0.4	0.5	0.3	0.2
Total expenditure and Net lending[a]	**24.1**	**19.9**	**18.0**	**16.6**	**16.0**	**17.6**
Current expenditure	19.0	15.2	15.1	14.7	14.3	16.1
Excluding interest	*12.7*	*11.3*	*11.2*	*11.4*	*11.7*	*13.3*
Wages and salaries	6.3	5.5	6.0	6.2	6.1	6.9
Interest payments	6.3	3.9	3.9	3.3	2.6	2.8
Capital expenditure	5.1	4.6	2.8	1.8	1.6	1.5
Primary balance	**2.9**	**1.2**	**2.7**	**4.2**	**3.7**	**2.3**
Overall balance	**-3.4**	**-2.7**	**-1.2**	**0.9**	**1.1**	**-0.4**

a. Only major items are reported.
Source: Authors' estimates and predictions based on data from Ministry of Economy and Finance.

Primary current expenditure – 85 per cent of total spending in 2001 with wages and salaries taking 37 per cent – was up 5.2 per cent (down 3.3 per cent in 2000), mostly due to a 6.6 per cent rise in the wage bill (mainly increases for the security forces and teachers). Interest on the public debt, the second biggest current expenditure item, fell significantly to around 3.3 per cent. Capital spending shrank by 31 per cent and its share of GDP to 1.8 per cent (from 2.8 per cent in 2000). Overall spending prospects were clouded by the September events and latest predictions were for a drop, though before the new crisis a marked increase was anticipated in 2002, whose budget provided for clearing of all debt service arrears and higher capital spending.

Public expenditure comes mostly out of the government's own revenues, which grew 8.4 per cent in 2001, faster than GDP, of which it comprised 17.5 per cent (16.8 per cent in 2000). Tax revenues rose slightly to 14.8 per cent of GDP (14.3 per cent in 2000) thanks to elimination in 2001 of exemptions, introduction of a single 20 per cent VAT and especially a big drive to collect existing taxes. The government also improved budget preparation, spending definitions, computerisation and monitoring of expenditure.

The current crisis is expected to produce a public revenue shortfall of 65 billion CFA francs in December 2002, compared with an increase of 33 billion in the first half of the year. The government is losing 140 million CFA francs a day in taxes on operations in the conflict zones. Before the crisis, direct and indirect tax revenue had been expected to rise 7 per cent in 2002 and the government was counting on increasing its non-tax revenue by 50 per cent thanks to proceeds from privatisation.

The better overall balance in 2001 had a potentially good effect on medium and long-term growth prospects. The surplus was used to reduce public debt arrears. Servicing reduced most of the short-term leeway the country had because, as an UEMOA member, its only major macroeconomic instrument is fiscal policy. However the stabilisation was necessary.

Like the other UEMOA countries, Côte d'Ivoire has an exchange rate pegged to the euro. The BCEAO followed a tight monetary policy in 2001 but this did not prevent inflation reaching 4.4 per cent. Because of the crisis sparked by the September 2002 events, crop production fell and factories produced less, pushing prices for mass-consumption items strongly upward. So inflation could rise further, to 4.9 per cent in 2002 and then fall back to 3.9 per cent in 2003 if the political situation settles down.

External Position

Côte d'Ivoire has a more open economy than its neighbours and exports and imports were 60.5 per cent of its GDP in 2001 (60 per cent in 2000). The trade structure by destination did not change over the year. European Union countries took 46.3 per cent of exports (45.1 per cent in 2000) and UEMOA countries 15.2 per cent (16.7 per cent in 2000).

However there were noticeable changes in the destinations within the EU, with France, for example, buying fewer Ivorian exports (13.9 per cent, versus 15.2 per cent in 2000) and the Netherlands more (14.1 per cent, compared with 9.8 per cent in 2000). This was because processing of cocoa, the main Ivorian export, is dominated by multinational firms. These were heavily bought into by Cargill, ADM and Callebault, whose better bulk handling than French firms improves efficiency and cuts transport costs. The ports best equipped for bulk handling are Amsterdam and Hamburg, where these major groups have big industrial units.

Côte d'Ivoire's UEMOA trade partners were unchanged because of fixed agreements. Before the

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Trade balance	12.4	12.5	14.0	15.5	16.4	11.9
Exports of goods	34.7	34.5	36.7	38.0	37.7	33.6
Imports of goods	-22.3	-22.0	-22.7	-22.5	-21.3	-21.7
Services balance	-5.6	-6.9	-7.0	-6.4		
Factor income	-2.9	-6.0	-6.2	-5.5		
Current transfers	-2.4	-3.1	-3.1	-2.7		
Current account balance	**1.5**	**-1.0**	**-2.3**	**0.9**		

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

September 2002 crisis, the country was the main outlet to the sea for landlocked Mali and Burkina Faso, but they have now been forced to use Ghana and Togo again, as they did in the wake of the December 1999 events. The continuing crisis is affecting the whole sub-region because the closed borders cause staple shortages in Mali, hinder cotton harvesting in Mali and Burkina Faso and raise consumer prices in both countries and in Niger.

Foreign trade is dominated by cocoa and coffee, although it is fairly diversified by sub-regional trade standards. Côte d'Ivoire exports semi-processed raw materials while its neighbours do little processing for export. However, like them, it is still at the mercy of the weather and world prices for these primary products on which its economy depends.

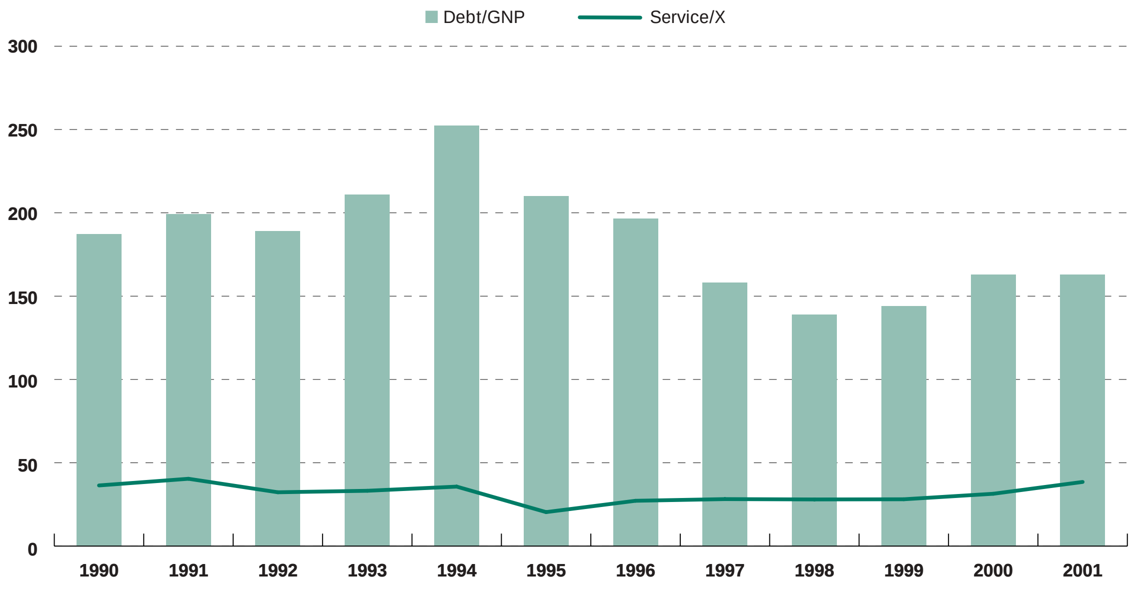
The trade balance improved in 2001, mostly thanks to better cocoa and coffee export earnings. Production of these major cash crops fell, but prices rose for the main one, cocoa. Volume imports of goods and services rose sharply in response to increased final consumption, but the extra cost was partly offset by slightly lower prices for these goods.

Prospects are not as bright for 2002, when foreign trade will be hit by the decision of Coface, the French export credit guarantee firm, to suspend its credits to Côte d'Ivoire because of the political crisis. Before the September events, higher exports had been predicted for the year, based mainly on the food-processing sector, along with higher imports due to increased demand for capital and consumer goods. These trends are now in jeopardy because of the problems in the export sectors.

Despite a small improvement, the transfers balance remained in deficit, at –2.7 per cent of GDP in 2001 (-3.1 per cent in 2000). The improvement was due to a drop in remittances abroad by immigrant workers in Côte d'Ivoire. The overall current account balance showed a surplus of 0.9 per cent of GDP, confirming economic recovery.

Nominal external debt at the end of December 2001was 7 774 billion CFA francs, or 103.7 per cent of GDP. In April 2002, Côte d'Ivoire obtained cancellation of $911 million of debt to the Paris Club nations and reduction of debt service from $2.26 billion to $750 million. Before the September 2002 events, relief of $3.3 billion had been anticipated to bring the

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



Source: World Bank.

principal down to a sustainable level. Interim assistance was put at $10-20 million in 2002 and $200 million in 2003 if the decision point was reached in December 2002 and the completion point two years later.

The government's efforts enabled it to resume talks with international funding agencies and improve relations with the country's banks. However, although the political crisis has not yet undermined Côte d'Ivoire's position with these agencies, if it continues the government may not be able to meet its obligations to them. It would then lose the support they were ready to give the country before the crisis.

Structural Issues

The government began structural reforms to liberalise the economy as part of its 1990-95 economic plan. This included privatisation and ending state control of the cocoa, coffee and energy sectors. The timetable for reform has been held up since the December 1999 political crisis and especially the one of 19 September 2002.

Privatisation, which started in 1990 and speeded up in 1994, is based on boosting competition as a motor for liberalisation, managing the social side and monitoring the consequences. Much of the privatisation was done between 1992 and 1997 and mostly involved firms producing goods and services in non-strategic competing sectors. In the state sector, this included franchising the water company Sodeci in 1987 and the part-sale of the electricity company CIE (1992) and Côte d'Ivoire Telecom (1997). Because of the political crisis, the rest of the programme, involving 40 or so firms, has been delayed. Among these are public service and strategic sector enterprises such as the national oil refinery company SIR, the port of Abidjan and Air Ivoire.

The main structural reforms decided on in 2001 were privatisation of SIR and the *Caisse autonome d'amortissement* and reform of the energy sector. This involved the financial rehabilitation of SIR and establishing rules to encourage the opening up of the sector. SIR's $55 million deficit was almost entirely cleared by a rise in refined oil prices in February 2001 and the firm's privatisation is now being prepared.

The electricity sector had a cumulative deficit of 51 billion CFA francs at the end of June 2001 because of the gap between the cost of producing current and the price to the consumer. This shortfall was worsened by the large sums owed by the government and by neighbouring countries buying electricity, mainly Ghana. The deficit was reduced from 51.7 billion CFA francs to 14.8 billion by a 10 per cent price increase in September 2001, an increase in VAT from 11 to 20 per cent, payment of arrears by Ghana's Volta River Authority and regularisation of debt payments by the government.

Efforts were made to stabilise and restructure state financial bodies, notably the *Caisse générale de retraite des agents de l'État* (CGRAE – the state pensions fund), the *Caisse autonome d'amortissement* (CAA – the sinking fund) and the *Caisse d'épargne et des chèques postaux* (CECP – post office savings bank).

Privatisation moves in agriculture in 2001 included opening up the cocoa and coffee sector and continuing to build a new organisational structure supported by the whole farming sector. For cocoa and coffee, the *Caisse de stabilisation* (CAISTAB – price stabilisation fund) was abolished on 30 September and a new body set up to manage the liberalised version of the sector. The government launched a drive to recover debts owed it by exporters.

Various structures were put in place to improve farmers' income amid fluctuating prices. These included a Coffee and Cocoa Exchange (BCC), which took over from the CAISTAB, with two-thirds of its members farmers and a third exporters. It fixes a minimum field price depending on market conditions. A new independent Coffee and Cocoa Regulatory Board (ARCC) monitors compliance with laws and regulations, including application of the BCC's minimum field price, and fixes export quotas.

A Regulation and Monitoring Fund (FRC) now financially manages the new cocoa and coffee marketing system, with farmers having 45 per cent of its capital, banks 20 per cent, insurance companies another 20 per cent and the government 15 per cent. It guarantees bank loans to small and medium-sized exporters and farmer co-ops, as well as giving them technical advice. A Coffee and Cocoa Producers' Development Fund (FDPCC) helps farmers by working at all levels of the sector. A Support Committee gives advice on costs and management but needs to improve its performance.

This restructuring of agriculture is being strengthened with help from the World Bank. More generally, the government needs to revise its approach to rural development, which is crucial to national growth and includes organising public services, opening up the coffee, cocoa and cotton sectors, decentralising and capacity-building.

Agreement was reached in September 2001 on restructuring the sinking fund (CAA) and the government hoped to privatise it in 2002. The government post office savings system was split into a savings bank (the CECP) and the state pensions fund (the CGRAE). A new round of privatisation is planned in the banking sector to reduce the government's debt to it.

Structural reform of public finances in 2001 aimed to boost collection by state taxation bodies which drafted an overall action plan, comprising central tax office proposals to step up inspection and enforce payment using banks and property companies and customs department proposals to streamline its procedures.

The stock exchange moved downwards in 2001 with shares on the regional exchange (BRVM) falling along with the BRVM 10 index. In April, a new firm, Bank of Africa, was floated on the BRVM, bring to 41 the number of firms quoted there.

Côte d'Ivoire's reduced attraction for both regional and other foreign investors and its continuing political and economic problems continued to weaken the BRVM in terms of volume of transactions. At the end of the third quarter of 2001, the composite BRVM index fell 15.5 per cent and the BRVM 10 (10 main stocks) by 18.1 per cent year-on-year due to the poor results of many of the firms quoted.

Total market capitalisation in 2001, after some ups and downs, was 811.42 billion CFA francs – 1.4 per cent less than 2000's figure of 822.9 billion and reflecting the market's general weakness and the part-repayment of the principal of some bond market loans. Things remained sluggish in 2002, though a government issue of new bonds in mid-year was well received.

Political and Social Context

The political and social climate improved sharply in 2001 and the national reconciliation forum held between October and December laid the basis for a return to stability. The first-ever provincial elections in July 2002 were contested by the main political parties and signalled the start of decentralisation by the government.

The current political crisis, especially the failed coup of 19 September 2002, are bound to pull down social indicators that are already low despite the per capita GDP ($643 in 2001 and $663 in 2000), which is high for the sub-region. Gross school enrolment (78 per cent) is still not as good as Ghana's 83 per cent. Life expectancy, at 47.9 years, is low, too, and the HIV/AIDS infection rate is the highest in the sub-region. These poor figures are the result of the concentration of health-care services in Abidjan to the detriment of the rest of the country.

Anti-poverty efforts being made as part of the interim poverty reduction strategy paper (PRSP) drawn up under the HIPC initiative focuses on education, infrastructure, roads, water and health-care in the countryside, where most of the poor live and where there is much potential for basic growth. The government is aiming for average real GDP growth of 4 per cent a year between 2002 and 2005, which should boost per capita income by 1.7 per cent.

The goal in education is to increase funding at primary and secondary level and spend more effectively.

Government efforts in health-care will focus on the high rates of tuberculosis, malaria and HIV/AIDS. Health funding is expected to increase and attempts be made to use the money more efficiently. Structural reform priorities will include making the productive sector (including cocoa, coffee and energy) more competitive. These initiatives will go along with the reforms and policies in the PRGF programme and other ongoing arrangements with the World Bank.

In line with the interim PRSP, the World Bank, the IMF and the government had spelled out targets to reach completion point under the HIPC initiative. These included drafting a final PRSP and implementing it for at least a year and maintaining macroeconomic stability by applying the PRGF programme. Management of public spending and results in governance would be monitored and assessed on a budgetary basis, mainly through how much money was earmarked to fight poverty. Other steps would aim to make government expenditure more effective, such as through a census of taxpayers, and the social sector and structural reforms would be reviewed.

Egypt

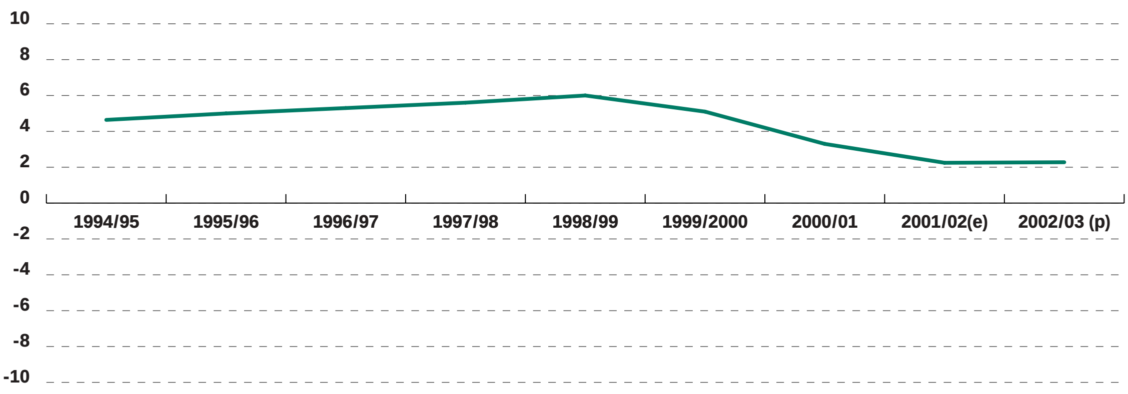
key figures

• Land area, thousands of km^2	1 001
• Population, thousands (2001)	69 080
• GDP per capita, $ (2001)	1 426
• Life expectancy (2000-2005)	68.3
• Illiteracy rate (2001)	43.8

THE EGYPTIAN ECONOMY had a very difficult year in 2001/02 with external problems that affected the entire economy being exacerbated by the 11 September attacks. The drop in revenues from tourism, oil and the Suez Canal, as well as the world economic slowdown and the region's security problems, reduced growth to 2.3 per cent, where it is expected to remain in 2002/03. After this difficult year, some indicators seem to be improving but the budget deficit is still large and may damage the macroeconomic stability Egypt has achieved in recent years. However, the sharp devaluation of the Egyptian pound should revive exports, though the resulting imported inflation will push up domestic prices. Structural transformation, primarily through privatisation and financial reform, is progressing slowly but it should boost growth in the long run. The food-processing and petrochemical sectors especially stand to benefit from reform and both have strong prospects.

The drop in revenues from tourism, oil and the Suez Canal adversely affected Egypt's growth in 2001/02

Figure 1 - Real GDP Growth



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

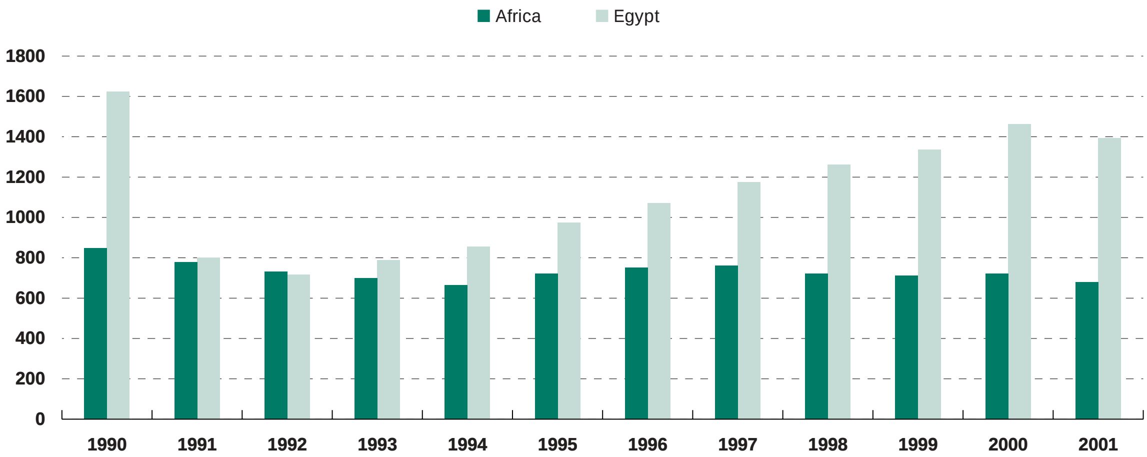
Recent Economic Developments

The Egyptian economy began to grow again following the efficient and well-managed 1991 implementation of the Economic Reform and Structural Adjustment Programme (ERSAP) which significantly reduced inflation, improved the current account balance and allowed for large-scale investment in infrastructure and key projects.

However, external constraints linked to the world economic slowdown and regional insecurity arising from the Israeli-Palestinian conflict, caused Egypt's growth to become sluggish. Tourist income, the main source of foreign exchange and a key motor in the economy's growth, fell by 22 per cent between July 2001 and March 2002. Since 1999/2000, revenue from oil and the Suez Canal also shrank, and growth was virtually zero in the construction, heavy industry and consumer durable sectors.

As a result, GDP volume growth was only 3.3 per cent in 2000/01 (down from 5.1 per cent in 1999/2000) and it is expected to fall further, to 2.3 per cent in both 2001/02 and 2002/03, the lowest level since 1993.

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



Source: Authors' estimates based on IMF data.

Growth in 2000/01 was uneven in the main sectors of the economy. Agricultural production rose 3.3 per cent from increased volume output of cereals and fruit despite the stagnation of other crops. Cotton production fell in response to lower prices.

Thanks to irrigation techniques made possible by the opening of the Aswan Dam in 1971, arable land has increased and crops have been greatly diversified. The main farming areas are the Nile Delta, Middle and Upper Egypt, the governorate of Sharkiya and new lands reclaimed from the desert. Egypt has comparative advantage in production of *berseem* (Egyptian clover), wheat, barley, broad beans, maize, rice and cotton. The country also produces fresh vegetables of great added value. However, food production cannot keep up with the high population growth and the country is only self-sufficient in meat and milk.

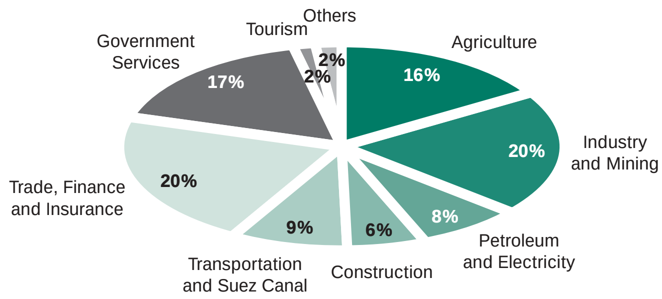
Agriculture's value-added contribution to GDP continues to decline slowly and is now about 16 per cent of GDP, down from 26 per cent in the 1970s. However, the sector itself is growing and now employs 29 per cent of the working population and accounts for 11 per cent of export revenue, deriving mainly from cotton, but also from potatoes, garlic, onions, lemons and medicinal plants.

The GDP share of the non-oil part of the industry and mining sector rose slightly in 2000/01 to about 20 per cent. Non-oil products registered 6.8 per cent growth in value but this was mainly due to higher prices as well as major efforts to modernise, especially in manufacturing. The biggest growth was in chemicals and weaving, but the country's production of metals, cement and consumer goods is also not negligible. The 32 per cent devaluation of the Egyptian pound between January 2001 and January 2002 may revive manufacturing exports.

The energy sector continues to play a major role in the economy. Though it represents just 8 per cent of GDP, oil revenue is important to the government, with oil taxes contributing about 3 per cent of the national budget. The country has nine refineries and five more are being built. In addition to exporting oil, Egypt enjoys a strategically important position, given that it controls both the Suez Canal and the Sumed pipeline, two major export routes for oil from the Gulf. Traffic and revenue in these had fallen with competition from a new route via the Cape of Good Hope, but this decline was recently halted when the Suez Canal Authority lowered its charges.

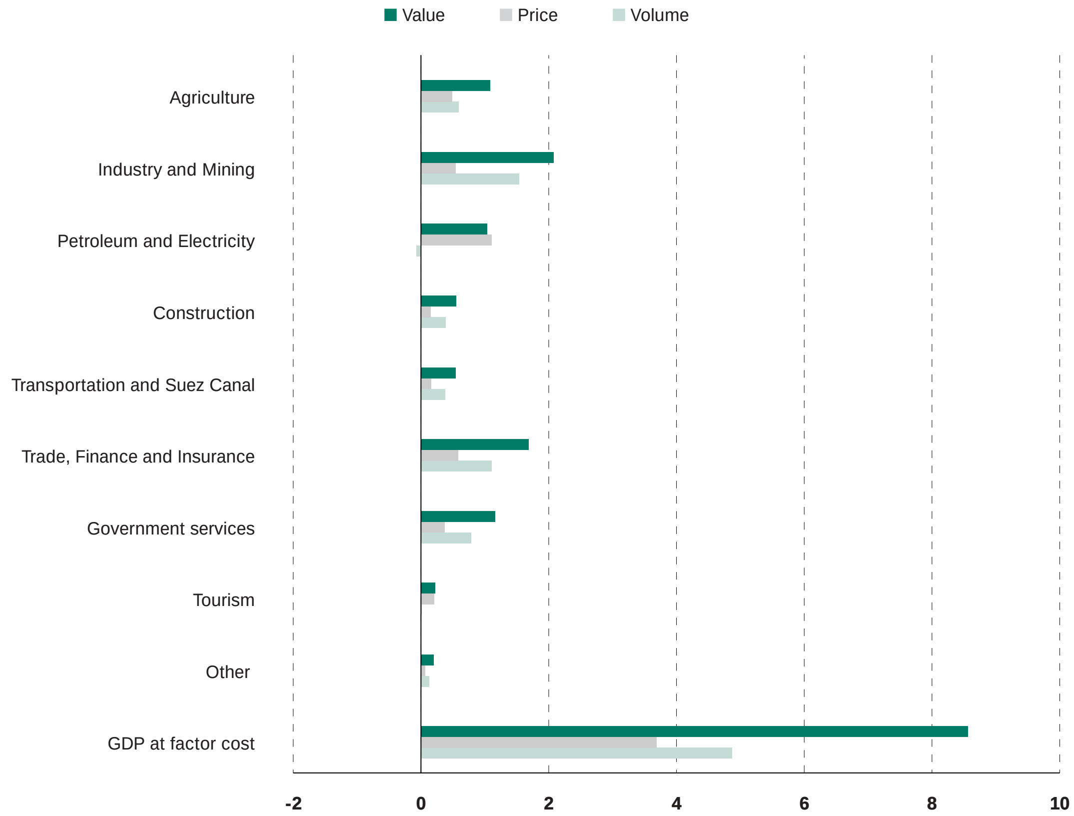
Production of crude and refined oil continued to drop in volume in 2000/01. Crude production peaked in 1996 (922 000 barrels a day) and has declined ever since (639 000 barrels in 2001). However, the opening up of new oilfields helped compensate for a slowdown in production in the Gulf of Suez, which represents

Figure 3 - GDP by Sector in 2000/01



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

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



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

two-thirds of national production. Proven reserves were estimated in 2001 at 2.9 billion barrels.

In a few years time, since domestic consumption is steadily rising (585 000 barrels a day in 2001), Egypt may become a net importer of oil.

Because of new discoveries, natural gas is expected to overtake oil as the main source of both energy-sector growth and export revenue when exports start in 2005. Gas production nearly doubled between 1999 and 2002, with domestic demand rising quickly as firms operating on thermal energy converted from oil to gas. They now consume 65 per cent of the gas produced.

Gas reserves were put at 55 billion cubic metres in September 2001 but the recent discoveries have probably boosted them to around 120 billion or, the equivalent of 20 billion barrels of oil.

Electricity production also increased. About 79 per cent of it is currently heat-generated (gas turbine) and 21 per cent is hydroelectric. The national grid is now being connected with those of Jordan, Syria, Turkey and Iraq. Links are also being considered with other Arab countries, Israel, the Palestinian Authority and North Africa.

The services sector accounts for a fairly high 49 per cent of GDP. Tourism is the main source of foreign exchange but revenue plummeted after the September 11 attacks, falling by more than 20 per cent between September 2001 and March 2002. The lack of European tourists has been made up for by more Arab visitors from the Gulf states.

Table 1 - Demand Composition (percentage of GDP)

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Gross capital formation	**17.6**	**20.5**	**18.3**	**16.9**	**17.5**	**18.5**
Public	6.0	7.6	6.0	4.0	3.9	4.1
Private	11.6	12.9	12.3	12.9	13.6	14.4
Consumption	**87.4**	**87.9**	**88.3**	**87.8**	**88.5**	**88.0**
Public	11.1	10.2	9.7	10.1	10.1	10.3
Private	76.4	77.7	78.6	77.7	78.4	77.7
External sector	**-5.0**	**-8.4**	**-6.6**	**-4.8**	**-6.0**	**-6.4**
Exports	23.1	15.3	16.3	17.4	19.2	20.4
Imports	-28.1	-23.7	-22.9	-22.1	-25.2	-26.8

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

Growth includes a low rate of domestic savings (up slightly from 11.7 per cent of GDP in 1999/2000 to 12.2 per cent in 2000/01) reflecting a high consumption/GDP ratio. The banking system does not make saving easy, being dominated by four state-owned banks that barely compete. The country is thus heavily dependent on savings held abroad.

Over the same 1999/2000 to 2000/01 period, the investment rate declined from 18.3 per cent to 16.9 per cent of GDP, which does not augur well for future growth. Private investment should rise to 14.4 per cent of GDP in 2002/03 and public investment is expected to settle at around 4 per cent, but the predicted overall investment rate of 18.5 per cent of GDP in 2002/03 is still below the 20.5 per cent of 1998/99. The private sector's lack of access to credit, foreign exchange restrictions and excessive government bureaucracy are often cited as obstacles to investment.

Macroeconomic Policy

Fiscal and Monetary Policy

The budget deficit was 5.5 per cent of GDP in 2000/01, compared with 3.9 per cent in 1999/2000 and 3 per cent the year before. It has been growing steadily since 1996/97 and is expected to reach 5.9 per cent in 2001/02 and 6.4 per cent in 2002/03, making it a major problem.

The government recently adopted IMF definitions and norms for its budget accounts, which now include three different consolidated measures of public revenue and expenditure. The first, which is used here, is a strict definition that includes the government's agencies and programmes. The second one adds in transfers from and to independent public bodies – such as the National Investment Bank (NIB) and General Authority for Supply Commodities (GASC) – and the third adds the Social Insurance Funds (SIF), which are currently in surplus because of an increase in the salaried working population.

The finance ministry is trying to rationalise income and expenditure. It is conducting income tax and customs reforms and in February 2002 it converted the general sales tax into a proper value-added tax (VAT).

Budget receipts only covered 80 per cent of expenditure in 2000/02 and 2001/02 (85 per cent in 1999/2000). Spending rose significantly, by more than 6 per cent, while revenue grew only 3.4 per cent. Taxes and profit transfers of the state oil company and the Suez Canal Authority were 6.1 per cent and 6.9 per cent of total government revenue in 2000/01, but income from the Canal fell by more than 4 per cent in 2001/02.

The deficit is no longer funded by seignorage, but by delaying payment to companies involved in major projects and by issuing treasury bonds (17.8 billion Egyptian pounds in 2001/02 – 4.6 per cent of GDP). The government also borrowed from the Social Insurance Funds in the National Investment Bank at pre-fixed below-market rates.

The tight monetary policy imposed in January 2001 slowed the growth of credit to the private sector. Since September 2001, the central bank has tried to revive the economy and increase liquidity by lowering the minimum lending rate and the obligatory reserve

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

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Total revenue and grants [b]	**28.0**	**23.5**	**22.3**	**21.0**	**20.8**	**20.6**
Taxes	17.2	15.4	14.7	14.2	13.7	13.8
Total expenditure and net lending [b]	**29.3**	**26.5**	**26.2**	**26.6**	**26.7**	**26.9**
Current expenditure	23.6	20.3	20.6	22.3	22.6	22.6
Excluding interest	*16.2*	*14.8*	*15.1*	*16.6*	*16.5*	*16.8*
Wages and salaries	6.3	6.5	6.5	7.0	7.5	7.4
Interest payments	7.4	5.4	5.5	5.8	6.0	5.8
Capital expenditure	5.7	5.8	4.9	4.2	4.0	4.2
Primary balance	**6.2**	**2.5**	**1.6**	**0.3**	**0.2**	**-0.5**
Overall balance	**-1.3**	**-3.0**	**-3.9**	**-5.5**	**-5.9**	**-6.4**

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

and liquidity ratios. It recently abolished the obligatory reserve ratio for long-term deposits and authorised banks to include several stocks and bonds in calculating liquidity ratios.

The money supply (M2) grew by 11.6 per cent in 2001/02, which was average for the previous five years. However, loans to the government increased by 22.5 per cent while those to the private sector rose only 9.5 per cent. In this uncertain climate, banks are not offering many loans and are focusing their activity on the least risky sectors, such as electricity, oil, natural gas, communications and food processing. Small and medium-sized firms are still shut out of the mainstream credit system.

The Egyptian economy has not suffered from inflationary pressure since the mid-1990s and the rate has steadily fallen, from 9.9 per cent in 1994/95 to 2.4 per cent in 2001/02. However, the devaluation of the currency is expected to push it above 3 per cent for 2002/03.

Interest rates have also declined, with a bias towards the short term. The daily rate on the money market rose in June 2002, having fallen to an artificial low of nearly 4 per cent. The central bank's minimum lending rate, which determines the longer-term credit rate, is still quite high, though it dropped in July 2001 to 11 per cent, after being at 12 per cent since 1998. Interest rates for borrowers also fell and were 9.42 per cent in June 2002.

The reduction in foreign currency reserves, from $22 billion in 1997 to $13.8 billion in January 2002, along with the currency liquidity crisis it entailed, put great pressure on exchange rates. For six months, the banking system's supply of dollars dried up and the needs of importers and private individuals had to be met by the grey market.

The present system is one of fixed exchange rates (though adjustable to the US dollar) but the government is thinking of allowing the Egyptian pound to float against a basket of currencies in which the euro would figure prominently.

After 10 years of being tied to the US dollar (at E£3.4 / $), the pound was devalued by stages, to E£3.85 in January 2001, to E£3.90 in June and E£4.24 in August. In January 2002, the central bank announced the pound would be fixed at E£4.51 / $, with fluctuation bands of 3 per cent each way for banks and currency exchange bureaux.

Despite this 32 per cent devaluation since June 2000, pressure on the pound continues and the grey market has revived (the street rate settled at about E£5.1 at the end of April 2002). The government has shut down 51 of the 126 currency exchange bureaux for periods ranging from 15 days to six months, accusing them of speculation. Since early 2002 however, the central bank's inability to supply foreign currency has effectively paralysed the currency market, pushing banks and bureaux to rely on their own resources. This shortage of foreign currency is a serious obstacle to economic growth.

External Position

Both the recent recession and the foreign currency shortages caused imports to fall, consequently resulting in an improved balance of trade in the 1999/2000 to 2000/01 period. Latest estimates are that devaluation should revive exports, pushing them up to 8.4 per cent of GDP in 2001/02 and 9 per cent in 2002/03.

Table 3 - Current Account (percentage of GDP)

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Trade balance	-13.4	-14.1	-11.5	-9.5	-10.7	-11.3
Exports of goods	8.4	5.0	6.4	7.2	8.4	9.0
Imports of goods	-21.8	-19.1	-18.0	-16.7	-19.1	-20.3
Services balance	6.6	5.6	4.7	4.6		
Factor income	0.2	1.1	0.9	1.1		
Current transfers	7.2	5.5	4.7	3.8		
Current account balance	**0.7**	**-1.9**	**-1.2**	**-0.1**		

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

However, as imports are also likely to recover, a trade deficit will remain.

The current account deficit was only 0.03 per cent of GDP in 2000/01 but the weak flow of foreign investment and the outflow of capital led to a deficit in the overall balance. The services balance remained strongly dependent on revenue from tourism and the Suez Canal. Both public and private net transfers fell sharply in 2000/01, before stabilising in 2001/02 (government by 17.5 per cent and private by 20.6 per cent). Remittances from Egyptian workers abroad and Gulf War reparations (dispersed over three fiscal years between 1998/99 and 2000/01) comprised the greatest part of private transfers.

Imports, including capital goods such as machinery and transport equipment and consumer goods such as livestock, food and drinks, are increasingly edging out local products. Though the government is trying to reverse this trend, Egyptian industry depends heavily on production equipment. The decline in the pound's value is therefore expected to boost inflation.

Exports are chiefly comprised of raw materials, such as crude oil, raw cotton and farm crops. Refined-oil products, clothing and metals follow. Lacking diversification, exports are at the mercy of world prices though devaluation could help make them more competitive. While the government does not directly subsidise exports, it previously engaged in indirect ones by awarding privileges such as credit facilities, lower customs duties, cheap energy and subsidised raw materials to some state firms. These have now been reduced.

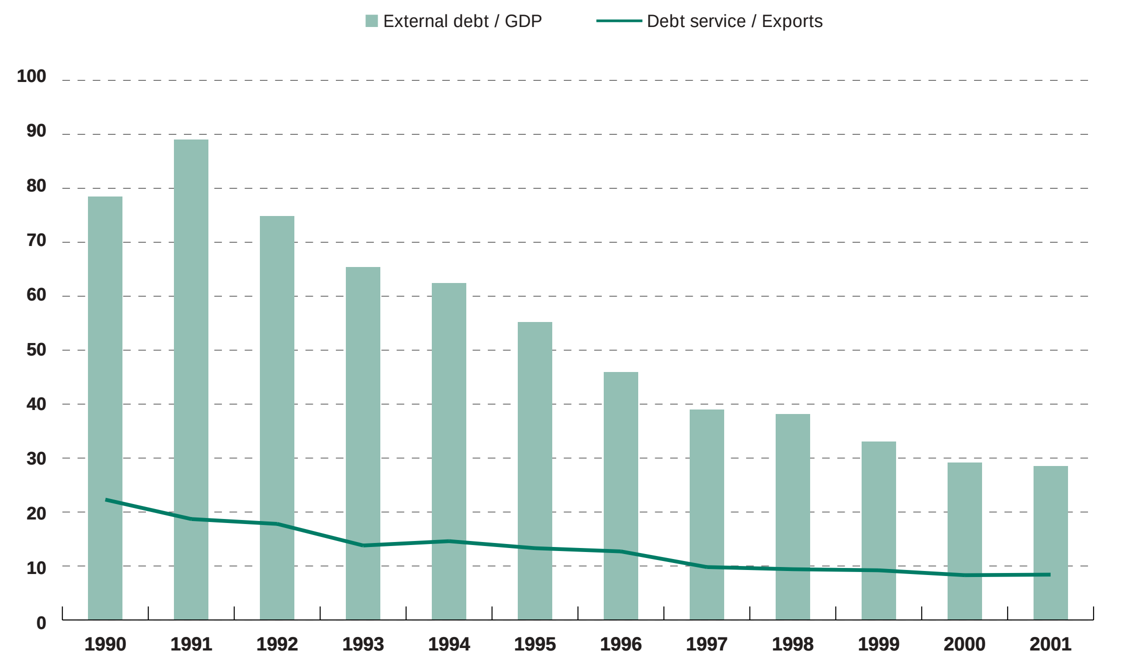
In order to stimulate exports, Egypt is signing regional agreements with its Arab and African neighbours. As part of a broad Euro-Mediterranean partnership, under construction since 1995, Egypt also agreed to gradually eliminate its tariffs against EU member states. Signed in June 2001, the association agreement is to be implemented in four stages over 15 years, building towards free trade and political and social co-operation.

Both the country's trade liberalisation programme and its commitments to the World Trade Organisation prescribe tariff reduction, though duty remains high — as much as 40 per cent — on cars, spare parts, alcoholic drinks and farm products. Non-tariff barriers, such as quality controls continue to be applied to many consumer goods, including meat, fruit, vegetables and electrical appliances. Imported goods must also be labelled in Arabic and instructions accompanying imported tools, machinery and capital goods must also be translated.

Egypt remains a relatively closed country with exports close to 7 per cent of GDP and all trade excluding services (imports plus exports) making up just 25 per cent of GDP.

That said, the government is looking to attract foreign investors by increasing transparency, protecting investor rights, and ensuring equality of treatment. Regional insecurity and the country's poor economic performance mitigate against these efforts, making Egypt increasingly unappealing to foreign capital. Investment flows declined from 400 million in 1999/2000 (when a number of successful privatisations took place, notably in the cement and energy sectors) to just €120 million in 2000/01.

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



Source: World Bank.

In 1991, the Paris Club wrote off approximately half of Egypt's debt, thus making the country's low external debt one of its current assets. Egypt is one of the world's most financially assisted economies, being the second biggest recipient of both US and EU aid. In February 2002, several international organisations (such as the IMF, the World Bank, USAID and the African Development Bank) agreed to provide the country with $10.3 billion over three years in order to help it cope with the economic impact of the September 11 attacks. Most of Egypt's debt consists of soft public, medium and long-term loans.

Both external debt and debt servicing have been steadily reduced in recent years. In 2000/01, the external debt was 28 per cent of GDP while service was 8.7 per cent of goods and services exports (compared with 28.5 per cent and 9.6 per cent the previous year).

However, in order to finance the budget deficit the government floated $1 500 million worth of eurobonds on the international financial market in June 2001. This should slightly increase the size of the debt in 2001/02. At the end of December 2001, the medium and long-term public debt was $23 941 million.

Structural Issues

Egypt has, on the whole, managed to stabilise its economy. The trade balance has largely been liberalised and the country is slowly converting to a market economy. However, some structural reforms continue to make little headway.

The government plans to revive the privatisation plan it launched in August 1991 which ran into trouble in the mid-1990s, faced with the debt and overstaffing of state firms. Doing so in the current climate of uncertainty and social tension seems dubious though, particularly as the most attractive firms have already been bought. Many of the remainder are crippled with unrecoverable debts and it is estimated that privatisation would bring about some 300 000 layoffs. In a country already suffering from high unemployment, pushing ahead with such decisions is difficult.

The sale of loss-making state firms remains a priority for the government seeking to reduce its domestic debt. Financing schemes such as BOOT (Build-Own-Operate-Transfer) and BOT (Build-Operate-Transfer), mainly restricted to large-scale infrastructure projects, have not proved advantageous, and they continue to weigh on the state budget. The government has preferred to set up financially-independent holding companies.

Of 314 firms earmarked for privatisation in 1991, only 191 have been privatised: 31 in 1999, 25 in 2000, only 13 in 2001 and six thus far in 2002 (with 19 expected by the government). Thirty-two firms counted as privatised were in fact liquidated, and 30 or so others were sold to workers' co-operatives. The sectors most affected by privatisation have been commerce, followed by food processing, tourism, construction, the film industry and the metal and mining industries. In recent years, the private sector's share of GDP has increased annually by about 1.5 per cent.

The government retains a monopoly in many service industries as well as in banking and insurance. It also remains dominant in the textile, steel and aluminium industries. Since a law was passed in 1998, private firms have been permitted to participate in running ports, shipping and airports. Though 54 state firms were sold through the stock exchange, only in 38 of these do private investors hold majority positions. Other sales were made to either single investors (19 per cent of cases) or to the workers themselves (23 per cent).

The government has targeted "strategic" sectors for privatisation, such as telecommunications and public services, including the Egyptian Electricity Authority. Irrespective of this, private participation in the state oil company (Egyptian General Petroleum Company — EGPC) and the new natural gas firm (EgyGas) will remain very limited, as it will in the seven state-owned regional firms generating and transmitting electricity. On the other hand, 10 per cent of the distribution sector will soon be privatised.

A telecommunications and information technology ministry was created in October 1999 with the mandate of defining a policy for the sector. Though Telecom

Egypt has a monopoly on fixed phone lines, several Internet service providers and mobile phone operators exist. The telecommunications infrastructure greatly expanded with the recent addition of 5 million more lines. But the government has postponed the sale of 20 per cent of Telecom Egypt's shares because of poor market conditions.

Egypt has undertaken several infrastructure projects designed to streamline the economy. Bridges, highways and hotels have been built and the Cairo underground railway has been substantially extended. A number of industrial towns are also being built in the desert, near Cairo and Alexandria.

The 2002/03 budget includes E£19 billion (about $4.2 billion) for funding mega-projects such as the Toshka land reclamation scheme, the Al-Salam Canal to irrigate northern Sinai and the development of the area east of Port Said. Lack of water is a major problem in Egypt and only 5 per cent of land is arable. To increase this, the Toshka Project (creating a second Nile Valley out of a new branch of the river) was launched in January 1997.

The financial sector was thoroughly reformed after liberalisation and deregulation, but banking services are still primitive. There are 28 commercial and 31 investment banks among the total 64, but the market is dominated by the state sector, whose eight banks include the country's four biggest: MISR, the National Bank of Egypt (NBE), the Bank of Cairo and the Bank of Alexandria. These 'Big Four' control more than half of the financial market activity, though they have a large number of bad debts on their books.

The privatisation of banks began in 1994 and most, with the exception of the Big Four are now listed on the stock exchange. Though Law 155, passed in 1998, established the constitutional basis for privatising these remaining state-owned banks, the government reneged on this intention in 2001 by banning joint-venture banks from holding shares in the Big Four.

In the insurance sector, 11 private and four large state-owned firms control much of the market. A 1998 law allows for 100 per cent foreign ownership of insurance companies. Surveys of the four state firms were concluded in mid-2001 as a first step towards privatisation.

Foreign brokers can operate freely on the Egyptian stock exchange, but since the intensification of the Israeli-Palestinian conflict, the shockwave of the 11 September attacks and the world economic slowdown, share performances have been very poor. Doubts about the stability of the exchange rate and the dragging privatisation programme have discouraged foreign investors. The value of their transactions fell from around 25 per cent of the total to 6 per cent in March 2002.

The new Cairo and Alexandria Stock Exchange (CASE) has grown fairly rapidly in recent years but it has been subject to wild fluctuations. Safe investments, in response, are performing better than ever, and bonds have risen to over 50 per cent. The Hermes share index is at its lowest level for eight years.

With just 100 of the 1 129 firms listed on CASE truly active at the end of April 2002, the exchange remains narrowly based.

Political and Social Context

Egypt is officially a social democracy divided into 26 administrative sections. President Hosni Mubarak has been in office since 1981 and Prime Minister Atef Obeid — a former public enterprises minister who launched the privatisation movement — since 1999.

Though the president is appointed by the People's Assembly, his six-year mandate must be confirmed by national referendum. The last of these was held on 26 September 1999, and the next will be in October 2005. The National Democratic Party retained its overwhelming majority in the autumn 2000 parliamentary elections. A supreme legislative council was recently set up to abolish outdated laws and to simplify the legal system. The economic, social and political situation is becoming increasingly complex and the country is hampered by rigid centralisation and lack of co-ordination.

The World Bank estimated that 10.7 million Egyptians were living below the poverty line (income of E£40 a month) in 1999/2000 – about 16.7 per cent of the population – and that 250 000 people were living on less than a dollar a day. Though poverty is worse in the countryside, it varies greatly from region to region. While urban growth has been very high over the past decade, it was negligible in Upper Egypt.

The majority of Egypt's 5.8 million poor (in a population of 10.7 million), live in rural areas and Upper Egypt. Among them, 45 per cent are illiterate. Employed in agriculture, mining or construction, the poor are usually the most vulnerable to unemployment. Poverty varies more between urban and rural areas than it does between the sexes. The urban governorates are much better off than those in Lower and Upper Egypt. This last remains the country's most impoverished region.

The government is trying to reduce poverty with direct and indirect subsidies for consumer staples. Thus, 730 000 people currently receive *baladi* bread subsidies and 170 000 receive cooking oil. The ministry of social affairs reimburses social security payments and provides pensions for the poorest households, but it has limited resources (only 0.04 per cent of GDP) and only pays an average of E£3.50 a month to families.

Unemployment is high, though official figures show that it fell steadily between 1992/93 and 1998/99 (from 10 per cent to 8.1 per cent of the working population) before rising in the last two years, to 9.3 per cent in 2000/01. It is young people seeking their first jobs and urban women between the ages of 15 and 30 that are most likely to be unemployed. Underemployment and job insecurity are major problems for young men in rural areas.

Egypt has made significant progress in reducing non-monetary poverty. For example, literacy, health indicators, infant mortality and access to drinking water have all improved. Health indicators in particular, are much higher than the African average. On the whole, Egyptians do not go hungry and they consumed on average, 119 per cent of the recommended minimum daily calorie level in 1999/2000. In addition, 81 per cent had access to drinking water. Malnutrition among children under five was nevertheless 4 per cent in 2000. Infant mortality was 29.2 per 1 000 live births in 1998 (108 in 1961) and 92 per cent of children had been immunised with the major vaccines in 2000.

Ethiopia

key figures

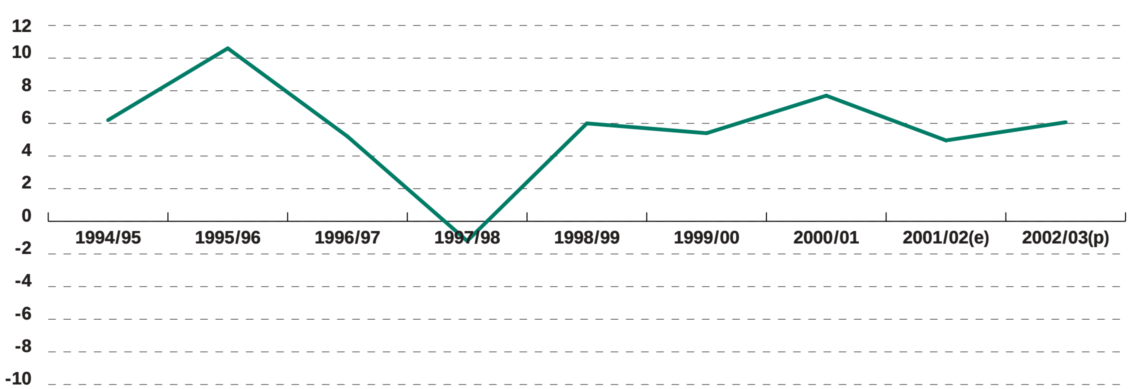
• Land area, thousands of km²	1 104
• Population, thousands (2001)	64 459
• GDP per capita, $ (2001)	97
• Life expectancy (2000-2005)	43.3
• Illiteracy rate (2001)	60.4

Ethiopia

ETHIOPIA IS MAKING STEADY PROGRESS in economic growth. In 2000/01, real GDP growth reached 7.9 per cent, from a yearly average of 4.8 per cent since 1994/95. Notwithstanding the growth upsurge, per capita income in Ethiopia has continued to decline since 1997/98. The growth performance is expected to moderate with an estimated growth rate of GDP of 5 per cent in 2001/02, which will rise to 6 per cent in 2002/03. In effect, Ethiopia's declining per capita income is expected to continue in the short term. In line with its Poverty Reduction Strategy Paper (PRSP) commitments, the government has put poverty reduction at the centre of its medium-term growth strategy. Ethiopia's economic management is improving, underlined by fiscal and monetary prudence. The government's recent fiscal performance is marked by success in orientating spending from defence to poverty-targeted outlays. However, weak expenditure management is hampering progress towards fiscal stability. Further increases in government expenditure are expected to outweigh revenue gains leading to continuing deterioration in the budget position in the short term. Prudence in monetary management is slowing down the expansion of monetary aggregates which, in turn, is contributing to declining inflation, stability in interest rates and the foreign exchange rate of the birr. Ethiopia's external sector is prone to movements in the international price of coffee. Recent declines in international coffee prices have

Recent fiscal performance in Ethiopia is marked by a reorientation of spending from defence to poverty reduction

Figure 1 - Real GDP Growth[a]



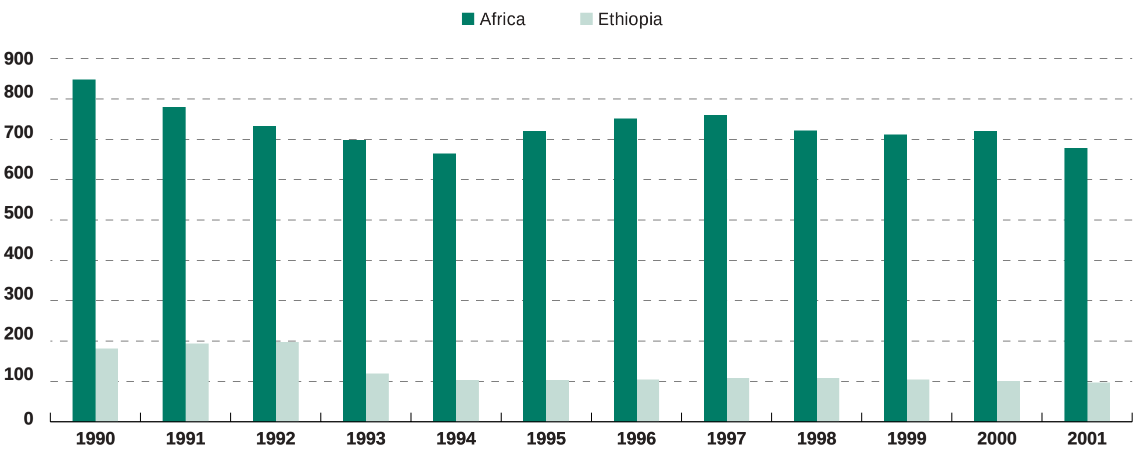
a. The percentage scale is different from the other countries since GDP growth exceeded the level of 10 per cent.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

translated into falling export revenue and deteriorating terms of trade. However, in 2000/01 a contraction in imports and increased current transfers contributed to improvement in the current account. The outlook on the external position is for further deterioration in the trade deficit as imports rise faster than exports. Ethiopia reached the decision point in the Heavily Indebted Poor Countries (HIPC) initiative in November and is expected to benefit from significant debt relief. Since embarking on the road to liberalisation in the early 1990s, privatisation has been a major plank of the government's reform agenda. The privatisation programme began in 1994 and, by April 2002, the government had divested 200 enterprises and planned to sell a further 113 by 2003/04. It is, however, unlikely that the target will be met given the slow pace at which the programme had travelled. It is also not certain whether the government has a clear timetable as to when the programme is to be completed. The political environment in Ethiopia is relatively stable and the government is making a determined effort to strengthen governance and democratic institutions in the country. Ethiopia now has improved relations with its neighbours and despite the fact that normalisation of relations with Eritrea is yet to be achieved, peace continues to prevail between the two neighbours.

Recent Economic Developments

Ethiopia continues to make steady progress in economic growth since emerging from conflict with Eritrea in 2000. Real GDP growth in 2000/01 maintained an upward trend at 7.9 per cent from 5.4 per cent in 1999/00 and the yearly average of 4.8 per cent during 1994/95-1998/99. A number of factors contributed to the improved growth performance in 2000/01. First, the agricultural harvest expanded sharply; the biggest expansion in five years. Second, higher inflows of external aid after the end of the war enabled Ethiopia to withstand shortfalls in export earnings. Third, economic performance gained from macroeconomic stability, with the fiscal deficit narrowing and the growth in monetary aggregates slowing down. Ethiopia's growth performance in 2000/01, however, did not reverse the declining trend in income per head, which the country has been witnessing since 1997/98.

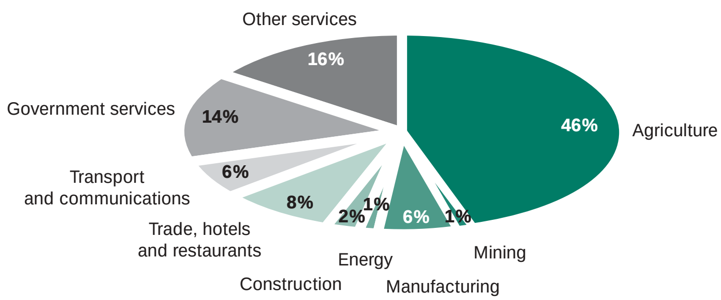
Figure 2 - GDP Per Capita in Ethiopia and in Africa (current $)



Source: Authors' estimates based on IMF data.

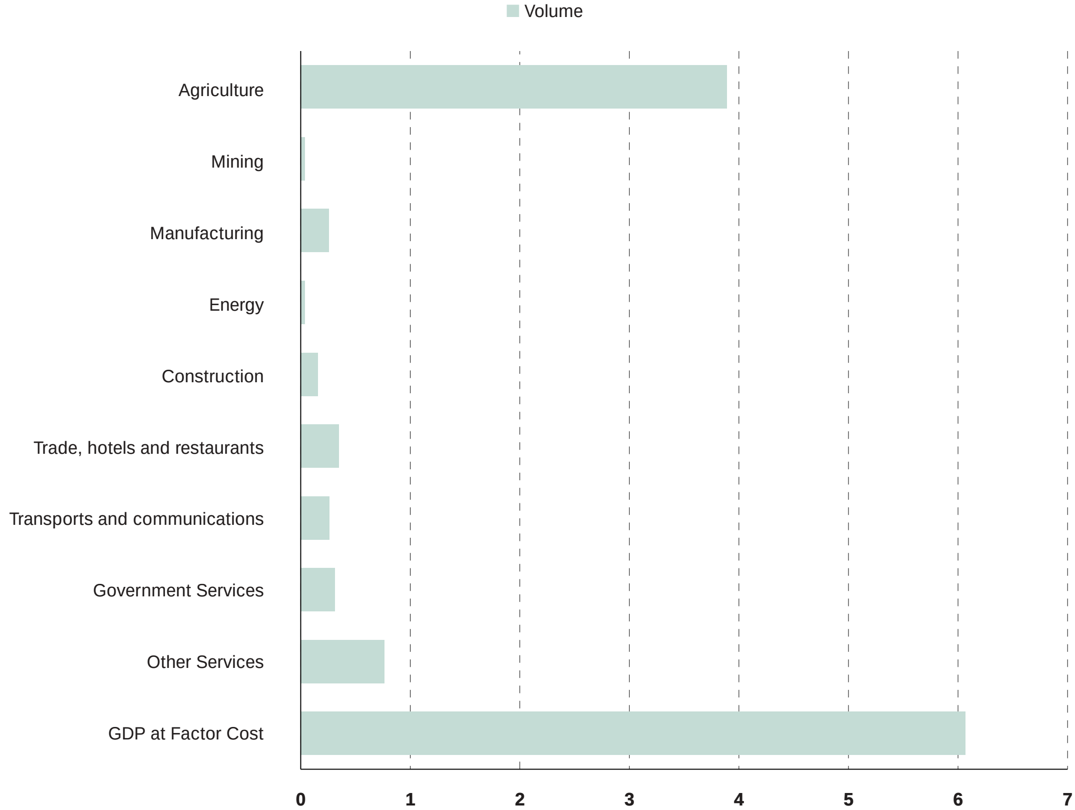
The strong growth in total output in 2000/01 was reflected in all sectors of the economy. Agriculture remained the mainstay of the economy, increasing its share in total GDP to 45.1 per cent in 2000/01 from 43.6 per cent of GDP in 1999/00. The agricultural sector expanded strongly in 2000/01 with a real growth rate of 11.5 per cent, compared with 2.9 per cent in 1999/00. The strong growth in agricultural production in 2000/01 was due largely to improved weather conditions. The food crop sub-sector spearheaded the agricultural sector expansion. In spite of delayed and patchy rains during late 2001 in the grain producing areas of central and southern regions, the main crop (*meher*) harvest came in above average registering about a 25 per cent increase to 16.5 million tonnes, the biggest expansion in five years. The good performance of crop production has continued into the minor agricultural season (March-May) 2002 as the good weather conditions had lasted. Significantly, Ethiopia has adopted some unique solutions to its perennial drought situation. Parts of northern Ethiopia, which were badly hit by famine a generation ago, are now exporting a food surplus. A unique scheme in the Axum area is working to conserve water and improve soil fertility by shoring up walls of fields to conserve the soil, stopping over-grazing, and stopping the use of chemical fertiliser in favour of compost. Nonetheless, field appraisals in the major crop-producing areas by the Disaster Prevention and Preparedness Commission (DPPC) of Ethiopia have revealed a shortage of traditional maize seeds, which has forced farmers to plant second and third generation hybrid maize with potential yield reductions of up to 40 per cent if planted with fertiliser and further reductions if planted without fertiliser. Consequently, the *belg* season maize production may be expected to come in lower in 2002 than the 2001 *belg* harvest. Also, notwithstanding the recent improvement in food production, Ethiopia continues to need large quantities of food aid, with some chronic food insecurity in areas such as parts of eastern Tigray and the Amhara and Oromiya regions that require over five months of food aid in a year. In addition to the generally poor agricultural output in these areas, inadequate infrastructure continues to make effective food distribution from areas of plenty to such shortage areas difficult. In contrast to the improving output of food crops, the production of coffee — the main cash crop — continued the declining trend of the past three years in 2000/01. Coffee output fell by 3.9 per cent in 2000/01 to 221 000 metric tons from 230 000 metric tones in 1999/00. This declining trend has continued into the first quarter of 2001/02 with a fall in output of about 35 per cent compared with the same period in 2000/01. The persistent decline in the international price of coffee has contributed to declining domestic producer price, which has been a major disincentive to improved production. In the three years preceding end-2000/01, coffee export prices declined by 37 per cent. This trend continued in the first three months of 2001/02 as coffee export prices fell by 3 per cent against the 2000/01 average export price. Consequently, the domestic producer price of coffee has also followed a downward trend. The domestic price of coffee fell by 14.1 per cent in 1998/99 and was maintained at birr 11 510 per metric ton in 1999/00. The price fell by 18.3 per cent in 2000/01 to birr 9 406 per metric ton. A further decline in the producer price by 13.9 per cent to birr 8 099 was experienced during the first quarter of 2001/02. The government has shown concern of developments in the coffee sector by implementing a number of measures: *i)* the 6 per cent coffee export tax will not be collected if the export prices fall below 70 cents per lb. for unwashed coffee and 105 cents per lb. for washed coffee (coffee prices have remained below this floor since August 2000, and export taxes have not been collected since May 2001); *ii)* suspension of the 5 per cent withholding income tax on proceeds from coffee exports; and *iii)* eased restrictions on the domestic sales of export-quality coffee and the transfer of coffee between regions. In addition, to prevent cash shortfalls, banks extending credit to middlemen (called wholesalers) have been refinancing their loans as needed. This benefits small producers as well, since wholesalers often finance producer activities. Furthermore, the Coffee and Tea Authority has been encouraging exporters to meet market demand at lower prices. The government is also making other efforts to boost production and exports. These include *i)* increasing exports of washed coffee, which commands a premium and constituted 24 per cent of coffee exports in 2000/01, up from 17 per cent in 1996/97; *ii)* preparing for the certification of organically grown Ethiopian coffee;

Figure 3 - GDP by Sector in 2000/01



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

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



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

and *iii)* reducing state participation in the sector as well as considering moving from the present auction system to a commodity exchange for coffee exports.

The industrial sector accounted for 10.5 per cent of GDP in 2000/01, up from 8.8 per cent of GDP the previous year. The growth performance of the sector also rose in 2000/01 to 5.8 per cent from 1.9 per cent in 1999/00. The improved performance of the industrial sector reflected some success of the government's privatisation programme that has brought into production some hitherto dormant manufacturing and agro-processing industrial establishments. The improved industrial performance was, however, largely as a result of the improved agricultural production that increased the availability of raw materials especially for food processing industries. Manufacturing output expanded by 5.4 per cent in 2000/01, up from 3.6 per cent the previous year. Mining and quarrying continued to grow strongly at 8.9 per cent in 2000/01, though below the 9.5 per cent achieved in 1999/00. At the same time, mining continued to make only a small contribution of just 0.5 per cent of GDP in 2000/01, reflecting the largely untapped situation of the sub-sector.

The services sector accounted for 44.4 per cent of GDP in 2000/01, slightly down on its share of 45.6 per cent in 1999/00. Growth in the services also slowed to 4.8 per cent in 2000/01 from 9 per cent in the previous year. In 2000/01, the distributive services accounted for 14.7 per cent of GDP while other services contributed 29.7 per cent of GDP. The main growth engine in the services during 2000/01 was social services, especially education and health, as the government diverted increased resources to these activities. Education services expanded by 13.1 per cent in 2000/01, up from 8.8 per cent in 1999/00, while health services increased by 8 per cent in 2000/01, from a decline of almost the same magnitude the previous year.

Table 1 - Demand Composition (percentage of GDP)

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2003(p)
Gross capital formation	**16.4**	**16.3**	**15.3**	**18.0**	**21.4**	**21.6**
Public	7.5	7.9	5.3	8.9	11.7	11.9
Private	9.0	8.4	9.9	9.2	9.7	9.8
Consumption	**92.6**	**98.6**	**100.1**	**97.8**	**95.9**	**96.8**
Public	11.9	18.5	23.2	17.5	18.2	17.6
Private	80.7	80.2	76.8	80.2	77.7	79.2
External sector	**-9.0**	**-14.9**	**-15.3**	**-15.8**	**-17.3**	**-18.5**
Exports	14.5	14.2	15.5	15.4	17.1	17.3
Imports	-23.5	-29.1	-30.8	-31.2	-34.4	-35.7

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

The expenditure composition of GDP shows a significant fall in the share of total consumption in GDP in 2001, due solely to a fall in public consumption. The fall in public consumption reflected the government's move away from war, which enabled productive resources to be devoted to investment, especially in the private sector. The reduced share of public consumption is expected to be maintained in 2001/02 and 2002/03. This will enable gross investment to rise in both years.

Macroeconomic Policy

Fiscal and Monetary Policy

Since emerging from war in 2000, Ethiopia has made some gains in fiscal management, which continued in 2000/01. However, progress in fiscal management is hampered by a relatively weak expenditure management system, mainly as a result of the degree of decentralisation to the regions; insufficient management capacity, particularly at the regional level; and lack of computerisation. The overall fiscal deficit narrowed from 11.4 per cent of GDP in 1999/00 to 5.7 per cent of GDP in 2000/01, reflecting both improved revenue situation and tighter control on expenditure. The improved fiscal situation was achieved despite what, according to the government, was a tight treasury situation resulting from a small revenue shortfall and uncertainty on the disbursement of donor funds. The major feature, however, of the government's fiscal performance in 2000/01 was its success in orientating spending from defence to poverty-targeted outlays. Although the government's budget position is expected to benefit from the revenue-enhancing measures, estimated higher government expenditure in 2001/02 and 2002/03 will lead to further deterioration in the budget situation. The primary deficit is estimated to rise to 7.4 per cent of GDP in 2001/02 and is projected at 7.2 per cent of GDP in 2002/03.

The government's total revenue increased from 21.6 per cent of GDP in 1999/00 to 24.6 per cent of GDP in 2000/01, reflecting increases in domestic revenue and external grants. The improving revenue situation has continued into 2001/02 with the government reporting that during the first quarter of 2002, fiscal performance was better than programmed, with revenues exceeding projections. The government's tax reforms are delivering an increase in tax revenue, which rose to 14.3 per cent of GDP in 2000/01 from 12.4 per cent of GDP in 1999/00. The government has accelerated the pace of its tax reform programme. A new Ministry of Revenues has been established and the revenue department has been moved from the Ministry of Finance and Economic Development to the new ministry in an effort to improve tax collection and to combat fiscal fraud. Following the increase in the sales tax and the removal of the import duty surcharge in 2000, a new legislation on presumptive taxation and a 5 per cent withholding tax on imports became effective in February 2001. In March 2001, legislation was approved to introduce the tax-payer identification (TIN) to reinforce the collection powers of revenue agencies, and a tax reform implementation task force was established. In July 2001 a large taxpayer unit was made operational and, in October 2001, a draft VAT legislation was submitted to Parliament regarding the planned introduction of VAT by January 2003. These measures are being assisted by the IMF, which increases the chances of effective implementation. In preparation for the introduction of VAT, the government initiated from the start of 2002 a number of processes including, the design and computerisation of the taxpayer registration process; the operational development of taxpayer services activities, return process and debit and audit activities; and publicity campaign and taxpayer education. The government submitted to parliament in June 2002 a revised income tax law, which includes enhanced enforcement procedures and an improved penalty regime, with a view to increasing the efficiency of income tax collection, and ensuring the recovery of income tax arrears. These measures are expected to lead to improvement in the government's revenue position, with the tax revenue estimated to rise to 15.8 per cent of GDP in 2001/02 and further to 16 per cent of GDP in 2002/03. Consequently, total government revenue is estimated to rise to about 26 per cent of GDP in 2001/02 and is projected to be maintained at that share the following year.

On the expenditure side, in 2000/01 the government was successful in increasing expenditure targeted at poverty reduction, even though total expenditure fell from 33.1 per cent of GDP in 1999/00 to 30.4 per cent of GDP. Poverty reduction expenditure that focused on improving delivery of services that have an impact on human development (health and education), and on increasing the opportunities for and efficiency of income earning activities (especially in agriculture and road infrastructure) increased from 4.5 per cent of GDP in 1999/00 to 5.2 per cent of GDP in 2000/01. Capital expenditure also increased from 6.6 per cent of GDP in 1999/00 to 9.6 per cent of GDP in 2000/01. The government also nearly doubled the minimum wage of civil servants (from birr 105 to birr 200) with effect from January 2002. In its effort to improve expenditure management, the government is implementing, within the Expenditure Management and Control Programme, a comprehensive short- and medium-term plan to enhance budget formulation, execution, and reporting at the federal and regional levels. The government is aiming to consolidate federal and regional budgets — including all extra budgetary funds and accounts — for both the past year and the budget year by end-2002. In spite of these measures, government expenditure will continue to rise. For 2001/02, total expenditure is estimated to increase to 36.1 per cent of GDP, and is projected to moderate at 35.5 per cent of GDP in 2002/03.

Ethiopia's monetary policy has been geared towards containing inflation and achieving an international reserve target; this policy was maintained in 2000/01.

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

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(e)
Total revenue and grants[b]	**20.8**	**21.5**	**21.6**	**24.6**	**26.4**	**26.1**
Tax revenue	11.5	11.4	12.5	14.3	15.8	16.0
Grants	3.3	3.3	3.3	5.1	5.2	4.8
Total expenditure and net lending[b]	**24.8**	**31.9**	**33.1**	**30.4**	**36.1**	**35.5**
Current expenditure	15.5	21.7	26.5	20.0	23.3	22.7
Excluding interest	*12.9*	*19.7*	*24.3*	*17.9*	*21.0*	*20.5*
Wages and salaries	5.6	6.0	6.8	6.9	7.9	7.3
Interest on public debt	2.6	2.1	2.2	2.1	2.3	2.2
Capital expenditure	9.3	10.2	6.6	9.6	12.8	12.9
Primary balance	**-1.4**	**-8.4**	**-9.3**	**-3.7**	**-7.4**	**-7.2**
Overall balance	**-4.0**	**-10.5**	**-11.5**	**-5.7**	**-9.7**	**-9.4**

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

The Net Domestic Asset of the Bank of Ethiopia (NBE) remained the key aggregate in steering monetary policy. During 2000/01, the government continued to sterilise excess liquidity in the system, and took steps to adopt indirect monetary management instruments. The government also continued moves towards market determination of interest rates and exchange rates. In order to enhance the use of indirect monetary management and to reduce excess liquidity, the NBE had introduced in November 2000 a two-year government bond, which served to mobilise most of the excess reserves in the banking system. Also, the government currently conducts regular bi-weekly Treasury bill auctions to raise government funding and/or manage liquidity at the margin. In order to facilitate liquidity management, the NBE introduced a rediscount facility for eligible government paper in March 2001. These developments, in addition to the government's prudent fiscal actions, contributed to a slowdown in the growth of broad money to 9.5 per cent in 2000/01 from 14 per cent in 1999/2000. The growth of monetary aggregates continued on a cautious note, with the growth rate of broad money at 3.6 per cent during the first quarter of 2001/02, in line with the annual target growth rate of 11.1 per cent. During 2000/01, net credit of the NBE to the government declined rapidly by 30 per cent as the government relied more on borrowing from commercial banks. Increased sales of government securities reduced banks' excess reserves from 29.6 per cent of deposits in September 2000 to 5.3 per cent in July 2001; the ratio, however, rose again to 9.7 per cent in September 2001 before falling to 5.2 per cent by end-October 2001. Interest rates remained stable throughout 2000/01. The average rate on the benchmark 91-day Treasury bill was about 3 per cent in 2000/01, down on the average 3.6 per cent in 1999/00. Commercial banks average savings rate was also stable at around 6 per cent in 2000/01 as in the previous year. There was, however, a marginal increase in the average lending rate of commercial banks to about 14 per cent in 2000/01, from 13.5 per cent the previous year underlying the uncompetitive nature of the banking system. Due in part to the slow growth of monetary aggregates and largely as a result of improved agricultural production coupled with the availability of food aid, consumer prices fell by nearly 7 per cent in 2001. The outlook on inflation is for consumer prices to fall again by an estimated 7 per cent in 2002. However, the rate of inflation is expected to take an upward turn at a projected annual rate of 4.3 per cent in 2003 with the upsurge in economic activity.

On the foreign exchange market, Ethiopia is aiming to achieve a flexible market, and the government continues to eliminate exchange restrictions to enhance the market's efficient and smooth operation. In March 2001, the NBE lifted the restrictions on the purchase of foreign exchange for holiday travel and education purposes. This was followed by the termination of the weekly wholesale foreign exchange auction and its replacement by the inter-bank market in October 2001. The government has committed itself to ensuring that a spread of more than 2 per cent does not arise between the NBE's buying and selling rates and those of the commercial banks. The birr was relatively stable depreciating against the US dollar by only 2.9 per cent during 2000/01. The stability has been maintained into 2001/02, with the value of the birr falling against the dollar by only 0.7 per cent in the first quarter of 2002.

External Position

Ethiopia continues to make progress towards liberalising its external environment by the progressive lowering of its average tariffs. Currently, all export taxes have been eliminated, except the export duty on coffee in special circumstances. Since the beginning of 2002, the government has carried out a study on effective protection towards its intention of reducing the average import tariff from the existing level of 19.5 per cent to 17.5 per cent by January 2003, as well as lowering the maximum tariff rate from 40 per cent, and reducing the number of bands from seven to four.

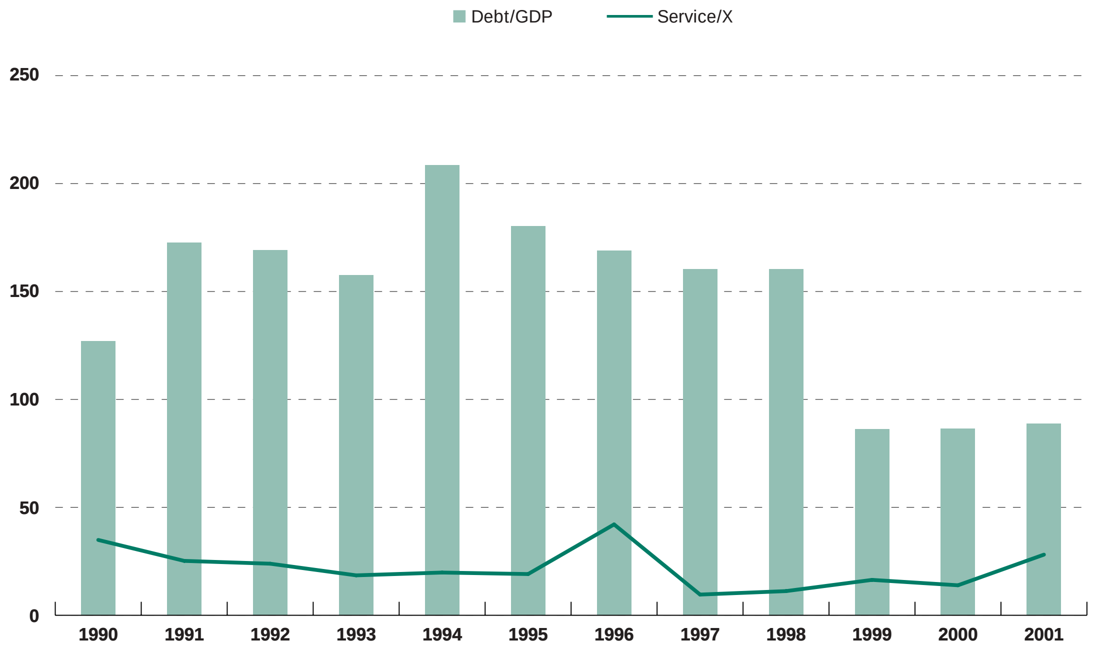
Ethiopia's external payments situation has been prone to the recent declines in international coffee prices. The poor performance of international coffee prices over the past three years continued to lead to deterioration in the terms of trade of Ethiopia and its export earnings. Total exports of goods declined by about 9 per cent from $486 million in 1999/00 to $441 million in 2000/01 reflecting solely the fall in export receipts on coffee. The value of coffee exports declined by about 33 per cent in 2000/01 following the declines of 6 per cent and 33 per cent in the previous two years respectively. The export sector also continued to suffer from illegal cross-border trade. The value of illegal trade in live animals, hides, and skins is estimated at nearly $85 million in 2001. Total imports also declined to $1 558 million in 2000/01 from $1 611 million in 1999/00. This contraction was due to a lower fuel bill. Due in part to the contraction of the import bill, and largely as a result of the increase in current transfers with the end of the war, the current account balance contracted from a deficit of 5.3 per cent of GDP in 1999/00 to a deficit of 4.2 per cent of GDP in 2000/01. The overall balance of payments position gained from significant improvement in the capital account from a deficit of $31 million in 1999/00 to an estimated surplus of $212 million in 2000/01. The sharp improvement was the result of continued funding of Ethiopia's demobilisation, reconstruction and sector development efforts by bilateral and multilateral donors. The outlook on the external position is for the trade account to deteriorate further as imports rise

Table 3 - Current Account (percentage of GDP)

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(e)
Trade balance	-10.4	-16.7	-17.7	-17.9	-19.7	-20.5
Exports of goods (f.o.b)	7.9	7.5	7.6	7.1	7.9	8.1
Imports of goods (f.o.b)	-18.3	-24.2	-25.3	-25.0	-27.5	-28.6
Services, net	2.1	1.8	2.3	2.2		
Factor income, net	-1.0	-0.8	-0.9	-0.9		
Current transfers, net	10.8	7.8	11.0	12.4		
Current account balance	**1.5**	**-7.9**	**-5.3**	**-4.2**		

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.

faster than exports. Thus, Ethiopia will continue to need further improvements in current transfers so as to prevent the current account position from worsening.

Ethiopia's external debt stock was estimated at $5.1 billion at end-2001. This amount was shared between multilateral creditors, 51 per cent; official bilateral creditors, 46 per cent of which debt to Paris Club creditors was 30 per cent; and commercial creditors, 2 per cent. Ethiopia reached the decision point for debt relief under the enhanced HIPC initiative in November 2001. Ethiopia had earlier in March 2001 received supplementary debt relief from the Paris Club of official donors. The annual savings of Ethiopia's debt relief will average about $96 million a year over the next three decades. With this relief, the debt service ratio of the country is expected to halve, from about 16 per cent to 7 per cent by 2003, falling to below 4 per cent by end-2021.

Structural Issues

Since Ethiopia embarked on the road to reforms in 1992, the government has been implementing measures to increase growth and poverty alleviation through private participation in the economy. As the country still faces the challenge of real transformation from a centrally planned economy, the government has intensified efforts at removing the legacy of a controlled economy. Since coming out of war in 2000, and with the assistance of the World Bank and the IMF, Ethiopia is making progress in reforms that are conducive to growth and poverty reduction. Reforms currently being undertaken include: *i)* civil service reform with the planned adoption of the civil service proclamation on code of conduct, and the implementation of a medium-term wage policy; *ii)* capacity building in key ministries such as the Ministry of Revenues, Ministry of Finance and Economic Development, the judicial system, at the regional and district levels, and through the establishment of industrial training institutions and private sector associations; *iii)* agricultural reform, particularly the adoption and implementation of an action plan to improve efficiency of agricultural input market, the review, in co-operation with the regions, of rural land proclamation to ensure efficient land lease policy, and training programme for farmers; *iv)* legal and regulatory reforms, including the adoption of a revised competition law, and a review of the implementation of the urban land lease policy; *v)* the restructuring of utilities, including through private participation and the introduction of regulatory frameworks; and *vi)* the continuation of the privatisation programme of parastatals.

Ethiopia's privatisation programme started in 1994 and, although it has evolved and changed in some perspectives, it still works along the main objective of the Ethiopian Economic Policy launched in 1991. It is still designed to support the economy on its way to sustainable development and growth. The government established the Ethiopian Privatisation Agency (EPA) in 1994 to implement the programme, which started with the privatisation of small retail trade outlets and hotels as well as small-scale manufacturing and agro-processing enterprises. The reason was for the government to gain first-hand experience, which could be used in later privatisation of medium- and large-scale enterprises whose privatisation could be more complex. As a matter of policy, bids for the retail trade outlets, stores, small hotels and restaurants as well as small-scale manufacturing enterprises and dairy farms were floated for domestic investors alone in a sale of 100 per cent ownership interest. For other enterprises, the EPA has invited investors, local and foreign, to participate in either joint expansion or improvement programmes with the government or in the acquisition of full ownership of the enterprise. By April 2002, the government had privatised 200 enterprises, and has planned to privatise another 113 enterprises over the period 2002/03-2003/04. The government intimates that the necessary preparations are underway for the privatisation of 81 enterprises with the help of foreign consultants and for 32 others on which in-house staff have carried out preparatory work. Yet it is difficult to see how the planned privatisation will be achieved given the slow progress being made so far. For instance, in 2000/01 the government offered for sale 14 enterprises that had been offered for bid more than once; only seven attracted bids. Even then, three bids have as yet not been awarded with, in the case of two (Addis Ababa Tannery S.C. and Tikur Abay Shoe S.C.), the bidder unable to fulfil the requirements of the EPA while, in one (Kombolcha Tannery S.C.), the bidder had set preconditions for the EPA. Also, the slow progress of the Ethiopian privatisation programme is not only in the sense of timing. It is still not certain whether the government has a clear timetable as to when it wants to rid itself of the state institutions and close shop.

In its financial sector reforms, the government has pursued several measures to improve the competitiveness of the financial sector. The government's objectives are to achieve a sound financial sector that would foster economic development and active competition in Ethiopia by offering an attractive range of financial savings instruments throughout the country and provide for an efficient allocation of financial resources to borrowers. In 2001, the government updated its medium-term financial sector strategy. The measures taken included *i)* the adoption by the NBE in March 2002 of regulations for the provisioning of non-performing loans and other doubtful assets in line with international best practices; *ii)* allowing a bankers' association to be formally established; *iii)* taking steps to strengthen the NBE, following the completion of the ongoing comprehensive study of the NBE, including revising the existing Banking Act to increase the NBE's autonomy; *iv)* ensuring that the Construction and Business Bank of Ethiopia is brought to the point of sale after its balance sheet has been restructured, based on the NBE's recommendations; *v)* starting to implement a restructuring plan to address the weak financial condition of the Development Bank of Ethiopia; *vi)* encouraging public entities to do business with all banks of their choice; and *vii)* allowing private banks to enter into management contracts with foreign institutions.

The government also took special measures, in line with IMF/World Bank technical assistance, to strengthen the Commercial Bank of Ethiopia (CBE), which still dominates the financial market with over 80 per cent of bank deposits and about 60 per cent of bank loans. The government signed a management contract with a foreign bank in June 2001. This contract, however, did not enter into force as the foreign bank withdrew from the contract in January 2002. However, following a sharp deterioration in the financial position of the CBE in 2001, which saw non-performing loans increasing from about 29 per cent of total loans at end-2000 to 39 per cent at end-2001, the government has since the beginning of 2002 taken the following measures: first, a new management was appointed to operate CBE on a commercial basis; second, a performance contract was signed between the government and the new CBE management in June 2002; third, to assist the new management, the CBE will be concluding a twinning arrangement with – or hire consultants from — reputable foreign institutions. In order to improve the financial situation of the CBE, the government further directed that there will be no new lending from the Central Bank to CBE. Also, lending authority will be transferred from the Board of CBE to management. Further, following the allegation of corrupt practices at CBE by the Ethiopian anti-Corruption Commission, 28 past CBE officials, 13 current managers (including the President and Vice President of CBE), and 12 private sector borrowers were arrested.

Political and Social Context

Ethiopia is a functioning democracy with the government making continuing efforts to strengthen governance and democratic institutions in the country. The country held general elections in May 2001 and a new president was elected by parliament in October 2001. The government then carried out an organisational restructuring including reducing the number of ministries from 25 to 18 and creating three co-ordinating ministries, namely Rural Development, Capacity Building and Infrastructural Development. The government is also preparing a National Capacity Building Programme which, with the Ministry of Capacity Building, are important responses to the capacity constraint in the country.

Ethiopia now has improved relationships with its neighbours. Following the signing of a peace accord with Eritrea in 2000, both governments have accepted the verdict of the UN Border Commission. However, there is still tension between the two neighbours as the actual border demarcation has not been effected and normalisation of relations is yet to be achieved. However, peace continues to prevail due to the efforts of both countries and the 4 200 members of the UN mission in Ethiopia and Eritrea. There has also been internal political tension due to the rift in the ruling Tigray Peoples' Liberation Front (TPLF) in 2001 that created political uncertainty and led to the arrests of prominent members of the ruling coalition and key businessmen on charges of corruption. However, there are allegations that some of the arrests were politically motivated thus casting some doubt on the real motive behind the arrests.

The government is beginning to address the problem of corruption in the country, which had also raised concerns of human rights abuses. Following the dismissal and detention of the country's deputy prime minister in 2000, several other public officials were removed on corruption charges though most were not brought before the courts. This led to charges that the dismissals were political rather than ethical. In May 2001, the government created, in the prime minister's office, the Federal Ethics and Anti-Corruption Commission (FEACC). The FEACC filed charges against some of the politicians and businessmen that were arrested in 2000.

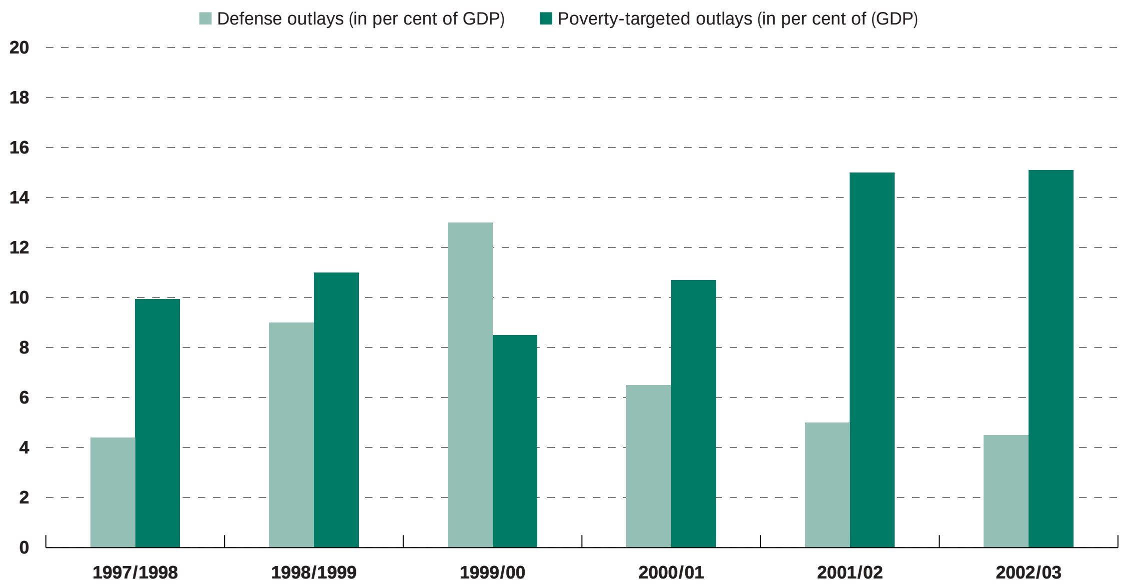
Poverty and poverty-related issues are most crucial in Ethiopia, as the country remains one of the poorest countries in the world. The extreme poverty is exacerbated by a high level of vulnerability and the large variance in levels of essential food consumption. For most of the poor in Ethiopia, food security, even in times of good weather, is a source of anxiety as Ethiopia has a persistence of structural food insecurity that affects 2-3 million mostly poor people every year. This is frequently exacerbated by severe drought conditions. The government has put the reduction of poverty at the centre of its medium-term growth strategy, as outlined in the country's full PRSP that has been prepared through a wide-ranging consultative process. The draft of the PRSP was issued to development partners for comment in July 2002. The final PRSP is expected to be finalised by December 2002. The draft PRSP directly targets the poor and the vulnerable by focusing development on agriculture as the sector, which is the source of livelihood for 85 per cent of the population and the development of which will provide food security for Ethiopians. The draft PRSP has as its overriding objective poverty reduction though at the same time maintaining macroeconomic stability. The government has set itself the target of reducing the poverty headcount ratio by about 10 per cent (about 4 percentage points) from the 1999/00 level of 44 per cent.

In the health sector, the government's recent targeting of poverty-related expenditures has been reflected in real per capita expenditure. Real per capita expenditure, which had declined by nearly a quarter between 1998/99 and 1999/00, rose by nearly 50 per cent in 2000/01. However, given the low expenditure levels of the past, it is obvious that reversing past trends in the sector is a long-term situation. Currently, health coverage is limited to only 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. 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 government's health strategy is focused on a Health Extension Package (HEP), a community-based health delivery system aimed at creating a healthy environment as well as healthy living. The main objective of HEP is to improve access and equity through community health services with strong focus on sustained preventive health actions and increased health awareness. The implementation of HEP is due to start in 2002/03. Also, combating the spread of HIV/AIDS, with about 10.6 per cent of the adult population being HIV positive, is a major challenge. To combat this pandemic, Ethiopia has developed a National Response Strategic Framework to HIV/AIDS, covering the period 2002-2004, aiming to reduce the level of HIV transmission by 25 per cent in five years. Also, a multi-sectoral HIV/AIDS programme is under implementation and the government is directly funding NGOs and Civil Society Organisations (CSOs) involved in HIV/AIDS-related activities on a matching grant basis. HIV/AIDS

Councils have also been established at the federal, regional and district levels to monitor programme implementation.

In the education sector, real per capita expenditure has also risen sharply as a result of the government's recent targeting of poverty-related expenditure. Real per capita expenditure that declined by about 6 per cent between 1998/99 and 1999/00, rose by about 30 per cent in 2000/01. 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 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 to 51.2 per cent. However, the education system continues to be characterised by both quantitative and qualitative limitations 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 about 50 per cent of all pupils who enrol in primary schools successfully complete the full cycle. In the draft PSRP, the government's education objective is to ensure access to elementary education for all citizens along with improving quality and relevance of education to socio-economic development. Towards this end, the government is committed within the PSRP to achieving a gross enrolment ratio of 65 per cent with regard to primary enrolment by 2004/05.

Figure 6 - Reduction in Defence Spending is Contributing to Poverty Alleviation



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

Gabon

key figures

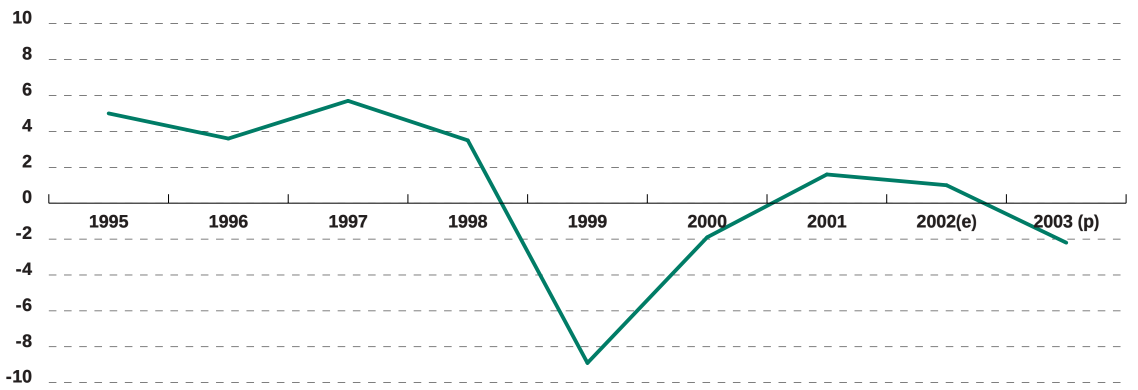
• Land area, thousands of km²	268
• Population, thousands (2001)	1 262
• GDP per capita, $ (2001)	3 716
• Life expectancy (2000-2005)	52.9

Gabon

With an annual per capita income of more than $3 700 in 2001 and a purchasing power parity (PPP) of $6 200 in 2000, Gabon is one of Africa's richest countries. However, it went through a serious economic crisis in 1999 and only slightly recovered from this in 2000 and 2001, thanks to the strength of the non-oil sector and a less-than-expected drop in oil production. The economy still suffers from erratic public expenditure, dependence on diminishing oil output and negligible diversification. In the medium term, declining oil revenue threatens government resources, the country's investment capacity and the stability of the banking sector. As a result, the expected 1 per cent GDP growth in 2002 may fall to –2.1 per cent in 2003. The end of the oil bonanza is especially serious because Gabon has poor social indicators, despite its high per capita income, and a heavy external debt for which it cannot claim relief under the Heavily Indebted Poor Countries (HIPC) initiative.

Oil revenues serve as a disincentive for Gabon to resolve its structural problems.

Figure 1 - Real GDP Growth



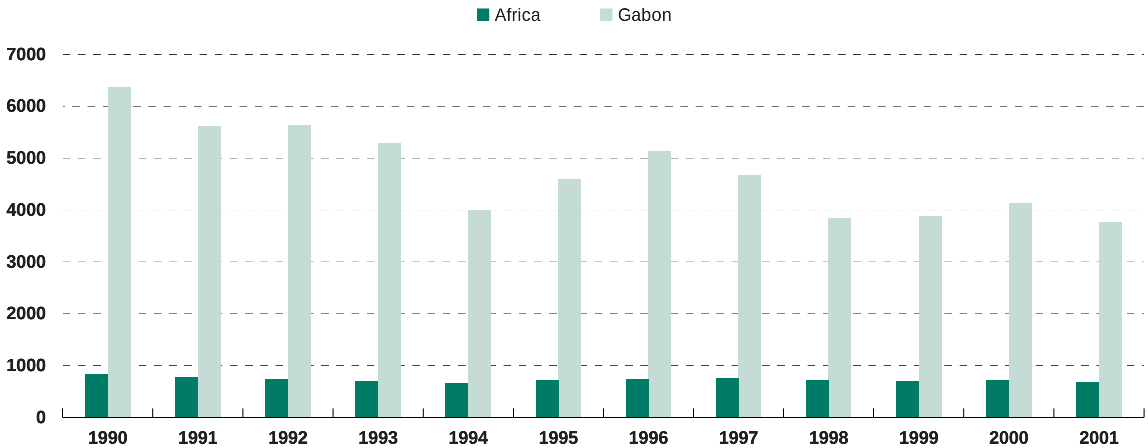
Source: Authors' estimates and predictions based on data from the *Direction Générale de l'Économie.*

Recent Economic Developments

The non-oil sector (especially construction, timber processing and communications) picked up again in 2001, growing 4.4 per cent in volume and partly offsetting the 5.3 per cent slowdown in oil activities. This produced volume GDP growth of 1.6 per cent.

Gabon has a wealth of raw materials, notably oil, minerals and timber, but is still heavily dependent on oil, which provides 76 per cent of all export earnings, 66 per cent of government revenue and about 42 per cent of current GDP in 2001. The country is increasingly concerned with falling oil production. The oil companies operating in the country (among which Shell and Elf accounted for 70 per cent of output in 2001) estimate that extraction will have shrunk by half by 2005. This drop in production, foreseen in 2000, has been postponed by the opening of smaller oilfields and by recovery of residual oil from worked-out deposits, made feasible by steady prices and better technology. Output was 13 million tonnes in 2001, 4.4 per cent down from the 13.6 million tonnes of 2000. In the long term, falling production can only be halted by the discovery of new deposits. As oilfields in Gabon tend to be small, a number of new finds

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



Source: Authors' estimates based on IMF data.

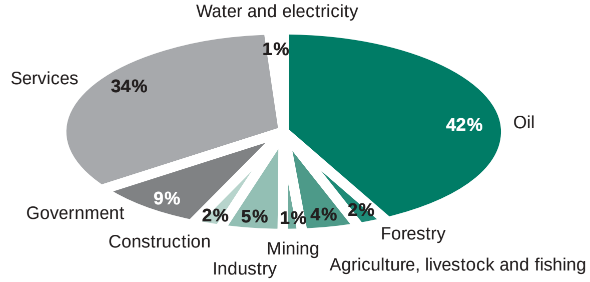
will be necessary to reverse the fall. This is possible with vigorous investment (up 47 per cent in 2001) and particularly, by more deep-water offshore prospection.

The country's second biggest resource, timber, was once the mainstay of the economy. Although the sector now provides only 2 per cent of GDP, it is still the second largest employer after the government, absorbing 28 per cent of the workforce. The sector was hard hit by the 1998 Asian financial crisis and then in 2001 by a wholesale reorganisation. Decreased world demand, especially from Asia, caused significant operational problems in the monopoly state timber-marketing firm, the SNBG. To remedy the situation, the government began limiting exports of logs in March 2001, first to 80 per cent and then to 40 per cent of production, intending to deplete the SNBG stocks and to encourage processing activity. As a result, 2001 was a middling year for timber production, with an 18 per cent decrease on the previous year. Some firms, already badly affected by the 1998 Asian crisis, and then compelled to cut back were obliged to stop operating altogether. However, the government's aim was partly achieved as the SNBG's stocks shrunk by 57 per cent, while sawmill activity increased by 42 per cent and plywood production by 21 per cent. The SNBG export quotas were temporarily suspended in 2002, but in the long term the government wants to reduce unprocessed timber exports as much as possible. For their part, logging firms have criticised the tough measures, the practice of favouritism, and the delay in setting up a regulatory structure.

Gabon has a rich mining sector now primarily based on manganese, since uranium extraction ended in June 1999. Despite the opening of the Moanda iron alloy plant in January 2001, which boosted production by 2.8 per cent, exports fell 14.4 per cent as a result of lower steel industry demand, especially in the United States.

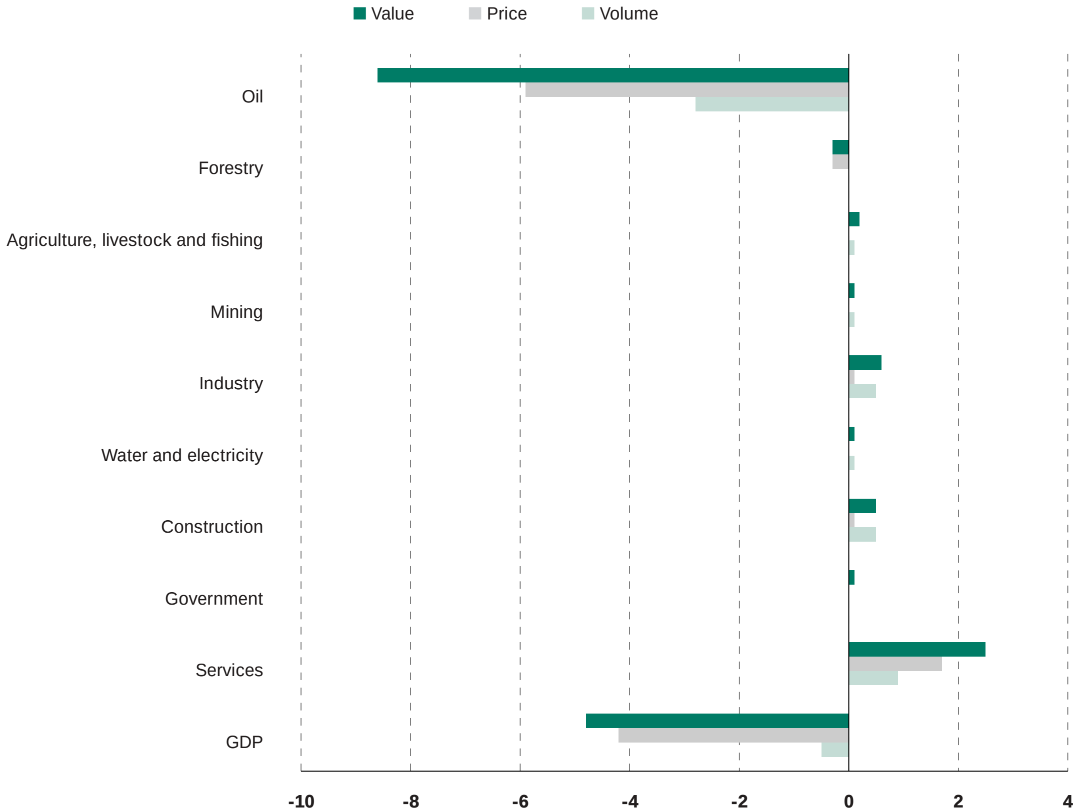
After oil was discovered in the late 1950s, agriculture (including fishing and livestock) was neglected and in 2001 it accounted for only 4 per cent of GDP. This was accompanied by a depopulation of the countryside (82 per cent of the population was urban in 2001) and by a rural labour shortage. The country was thus obliged to import over 60 per cent of its food. The government wants to counter the effects of falling oil production by diversifying export crops (encouraging cultivation of coffee, cocoa, rubber, palm oil and sugar). To this end it keeps prices to farmers high. However, the general disorganisation of agro-industry following privatisation remains an obstacle, while agricultural growth is greatly impeded by the poor communications network, low world prices, ageing cocoa and coffee plantations and lack of support structures. Annual production of food crops fell in 2001 (with taro and yams down as much as 23 per cent) and coffee and cocoa sales dropped

Figure 3 - GDP by Sector in 2001



Note: The oil sector includes production of crude oil, refining and prospecting, and oil services.
Source: Authors' estimates based on data from the *Direction Générale de l'Économie.*

Figure 4 - Sectoral Contribution to GDP Growth in 2001

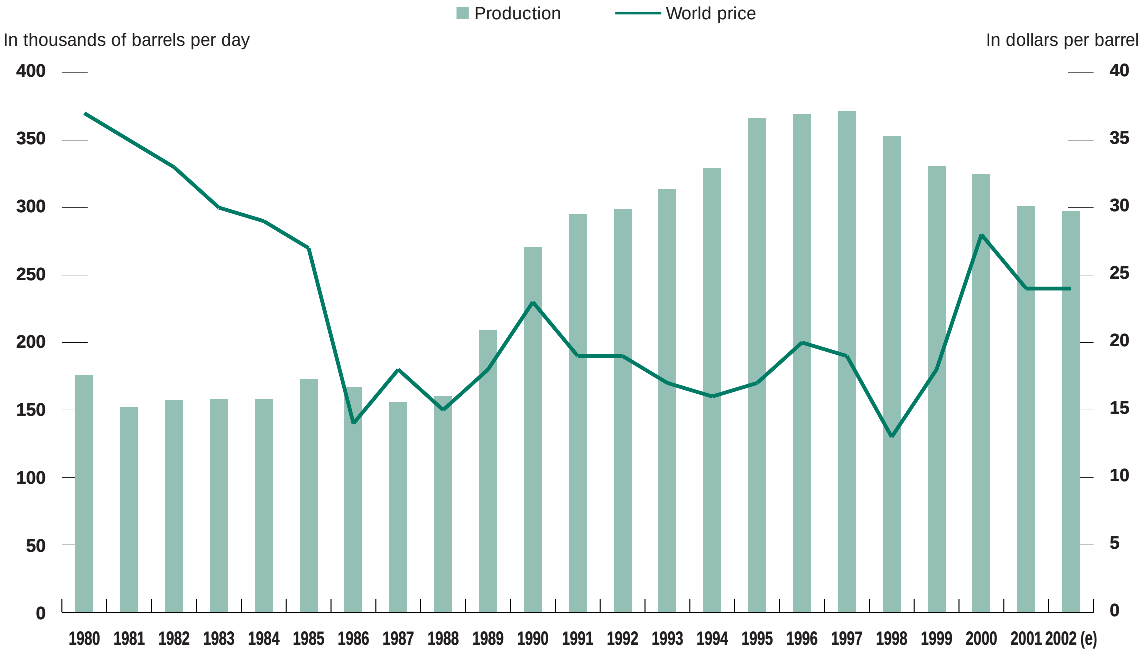


Note: GDP volume growth is shown as negative because the weight of the oil sector is different from that used in the national accounts.
Source: Authors' estimates based on data from the *Direction Générale de l'Économie.*

50 per cent and 20 per cent, respectively. The only bright spot was rubber, whose production tripled in 2001 with the reopening of the Mitzic plantation.

The industrial sector is very small and has been neglected in favour of raw material production. Processing is limited to a small oil refinery (750 000 tonnes annual capacity) at Port Gentil and a few timber operations. The refinery's volume output fell by 10 per cent in 2001 after an explosion caused by its dilapidated equipment shut down the plant for more than two months. Heavy cutbacks in public investment, coupled

Figure 5 - Oil Production and Prices in Gabon



Source: Energy Information Administration (production) and World Bank (international price).

with private sector wariness in response to government delays in settling bills and from cumbersome bureaucratic procedures, caused the construction industry to be badly hit by the 1999 crisis. The state helped restore confidence in 2001 by clearing its domestic debts and the sector subsequently grew 32 per cent in this year (compared with a drop of 24 per cent in 2000). However, the private sector's timidity returned in early 2002 following new uncertainties regarding public finances.

Traded services accounted for a third of GDP in 2001 and show much vigour, especially in telecommunications (though this sector is making up for lost time, it remains weak for a middle-income country). This vitality should last into 2002/03 when the national network will be hooked up with fibre-optic cable. Hopes of making Gabon a regional service centre have faded though, with regional co-ordination lacking (each oil-producing country preferring its own facilities) and with continuing delays in projects such

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Oil production	**39.2**	**36.6**	**47.2**	**40.5**		
GDP excluding oil	60.8	63.4	52.8	59.5		
Gross capital formation	**23.7**	**24.3**	**22.4**	**29.5**	**33.3**	**35.2**
Public	5.5	6.8	5.0	5.8	8.0	7.8
Private	18.2	17.5	17.4	23.7	25.3	27.4
Consumption	**52.7**	**55.6**	**46.2**	**50.5**	**52.2**	**54.9**
Public	14.1	16.8	13.6	14.7	15.0	15.5
Private	38.6	38.8	32.6	35.8	37.3	39.4
External sector	**23.6**	**20.1**	**31.4**	**20.0**	**14.5**	**9.9**
Exports	57.5	56.4	64.4	57.7	53.7	51.0
Imports	-33.9	-36.2	-33.1	-37.7	-39.1	-41.2

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

as the duty-free zone at Port Gentil[1]. Only the banking sector seems sufficiently competitive to expand in the sub-region. The GDP share of non-traded services is also very large, with 40 000 civil servants in a population of 1.2 million, twice as many as in other African countries. Nonetheless, since devaluation in 1994 the informal sector has experienced accelerated growth in response to the fall in real wages and a decline in civil service jobs.

Macroeconomic Policy

Fiscal and Monetary Policy

In 2001, three years after the serious budget crisis of 1998, the deficit reached 14 per cent of GDP, putting the government in a difficult position. The poor performances of state-owned companies necessitated unforeseen large cash injections. Delays in privatising the agro-industrial firms, Agrogabon (palm oil) and Hevegab (rubber), required the government to continue their subsidies. It also had to help increase the capital of both Air Gabon (to enable it to repay its debts) and of Comilog (to pay for a manganese processing plant). Added to this were: a very large external debt-servicing bill (615 billion CFA francs, i.e. about $840 million), bank-loan repayments, and the cost of holding parliamentary elections. Oil and tax revenues were less than expected due to lower world oil prices and poor customs receipts. Explaining its increased deficit, the government highlighted the particularly ambitious goals of the 2001 budget, which had put public finances under great pressure leading the government to rollover bank debts and to make statutory drawings on the BEAC. Budgetary excesses and delayed structural reforms also resulted in failure to meet the conditions of the IMF stand-by programme signed in October 2000, thereby preventing the last three reviews and the disbursement of related tranches.

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants [a]	**29.5**	**28.3**	**33.5**	**34.6**	**33.1**	**32.3**
Taxes	10.8	11.0	10.4	10.9	11.3	11.8
Oil	17.9	12.8	22.6	22.8	21.0	19.6
Total expenditure [a]	**26.7**	**27.2**	**21.8**	**27.5**	**24.5**	**24.5**
Current expenditure	21.2	23.0	18.7	23.1	19.7	19.7
Excluding interest	*12.7*	*16.2*	*12.8*	*14.4*	*14.7*	*15.4*
Wages and salaries	7.2	7.5	6.0	6.4	6.3	6.5
Interest payments	8.5	6.8	5.9	8.7	5.0	4.3
Capital expenditure	5.5	4.1	2.9	3.6	4.9	4.8
Primary balance	**11.3**	**8.0**	**17.6**	**15.8**	**13.6**	**12.1**
Overall balance	**2.8**	**1.2**	**11.7**	**7.1**	**8.6**	**7.8**

a. Only major items are reported.
Source: Authors' estimates and predictions based on data from the *Trésor Publique.*

The year got off to a bad start in 2002 with a sharp fall in world oil prices causing the government to review the oil price predictions on which the budget was based. The cost of holding elections and technical problems in processing budget data compounded the difficulties. As a result, by late May the 2002 budget had yet to be passed, making economic decision-makers more hesitant and automatically delaying the investment budget.

To plug the 2002 budget deficit, the government seeks to boost revenue with higher export taxes on timber and manganese, smaller subsidies for the national

1. The law establishing the duty-free zone was passed in October 2001 but it will not start operating until 2005. At present, most shipping traffic passes through Douala.

oil refinery (Sogara) and higher taxes on beer. This will be accompanied by better monitoring of tax collection, including closer attention to exemptions, more frequent audits of big firms and an enhanced enforcement of income tax. This should boost tax revenue to 11.3 per cent of GDP in 2002 and to 11.8 percent in 2003 as oil revenues continue to fall. The government will restrict its subsidies to state-owned companies (the post office, Agrogabon, Hevegab and Air Gabon) to one per cent of GDP and it will repay a third of Air Gabon's debt (representing 0.6 per cent of GDP). Despite these efforts, and if the government proceeds with its planned investments, the overall budget balance will not improve much in 2002 and 2003.

As in other CEMAC member states, Gabon's exchange rate is pegged to the euro and its monetary policy is in the hands of the BEAC, leaving fiscal policy as the country's main economic instrument. Since the 1994 devaluation, inflation has been well under control. It was about 2.6 per cent in 2001 and should be about the same in 2002 and 2003. However, net foreign reserves fell sharply in 2001 because of lower export revenue and especially high debt repayments.

External Position

Abundant natural resources and thus, greater purchasing power than other African countries, make Gabon a major exporter and importer. It sells mostly oil (80 per cent of total exports in 2000 and 2001), timber (12 per cent) and manganese (4 per cent) and more than half of all exports go to the United States. Imports are mostly food (18 to 20 per cent as the country is far from self-sufficient), chemicals and transport equipment. More than half of all imports come from France.

Gabon's normal trade surplus was pushed to a record high in 2000 by a steep rise in oil prices that also improved terms of trade by 55 per cent. This subsequently fell in 2001 and terms of trade declined by 10 per cent. The value of exports shrank by 15 per cent due to the smaller amount of oil and timber sold, and lower world prices for both commodities. Imports were boosted 11 per cent by the strength of the non-oil sector and by investment aimed at slowing the decline in oil production. Lower oil exports, which increased timber and manganese exports will not completely offset, should weaken the trade balance further in 2002 and 2003.

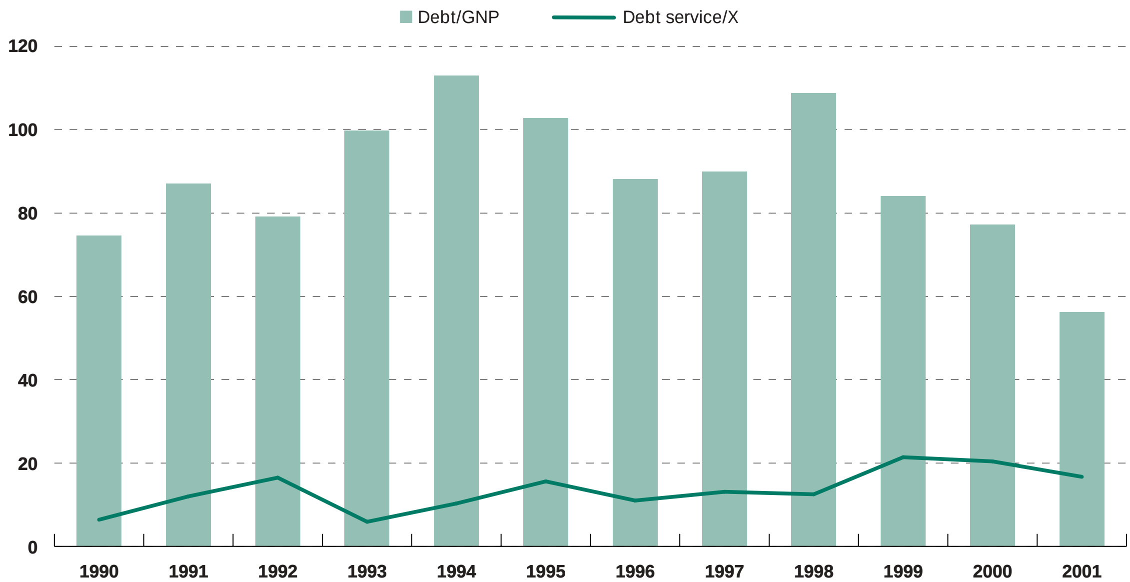
Gabon has accumulated a large external debt whose nominal value in 2001 was more than $2 500 million (56 per cent of GDP). Much of this was incurred during a period of major construction in the late 1980s when the Trans-Gabon railway was built. The CFA franc value of this foreign currency debt increased from devaluation and by the government guarantee offered on the liabilities of partially state-owned firms. The debt burden is especially heavy, not being made up of soft loans, so interest payments are high (about 80 per cent of non-oil tax revenue in 2001). Also, the country's relatively high per capita income makes Gabon ineligible for the HIPC initiative. In October 2000, the government renegotiated its debt with the Paris Club and it is now seeking further renegotiation, though obtaining IMF support is a precondition for this.

Tableau 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade balance	35.2	35.5	45.1	34.9	30.2	26.2
Exports of goods	53.3	53.6	63.4	56.2	52.2	49.6
Imports of goods	-18.1	-18.2	-18.2	-21.3	-22.0	-23.3
Services balance	-13.6	-14.9	-13.7	-13.4		
Factor income	-14.4	-25.4	-27.3	-21.5		
Current transfers	-4.0	-3.9	-1.0	-1.0		
Current account balance	3.2	-8.7	3.2	-1.0		

Source: Authors' estimates and predictions based on 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.

Structural Issues

Structural reform, especially privatisation, was frequently delayed in 2001.

The institutional framework was strengthened by a new labour law, declared in October 2000. A census of government employees was completed in October 2000 and a new organisational chart was drawn in March 2001. The new status of civil servants was approved by the government in October 2001 and the Senate passed anti-corruption laws in December that year. In early 2002, a body to encourage private investment, APIP, was set up to act as a single gateway for investors and to cut red tape. Despite such initiatives, reforms are not being consistently implemented. Parliament approved an investment charter and rules of competition in 1998, but they have not yet been applied. Business people continue to complain about red tape and the many illegal special taxes they say hinder private-sector growth (despite such taxes being specifically banned in the budget). Overall though, foreign investors say Gabon is a good place in which to invest, given the privileged welcome extended to them. They are also very pleased at President Omar Bongo's support for NEPAD and with the encouragement of the private sector that this entails.

Gabon's public sector is very large, as a 1973 law accords 10 per cent of the shares of any new private company to the state. A privatisation programme was finally begun in 1997 with the handover of 51 per cent of the water and electricity company, the SEEG to the Vivendi Group with a 20-year monopoly on production and distribution. It was not a cash deal however, but consisted of a pledge by the new owner to greatly reduce the cost of the services and to invest 300 billion CFA francs ($421.5 million) in the company, extending the network to increase the level of service from 60 per cent to 90 per cent by the end of the franchise. This privatisation was followed by those of the state sugar operations and the Trans-Gabon railway in 1998, and by that of the state cement company in 2000. The railway has been hampered since then by a dispute with the manganese firm Comilog, which refuses to pay higher freight charges. In November 2001, the national forestry company CFG, was sold to the Italian firm Cora, but its health remains uncertain.

CFG's equipment is very old and the lay-off of 800 workers has caused serious labour problems.

Some firms, particularly in the agro-industrial sector, failed to attract buyers after calls for tender. The government has therefore decided to restructure them before putting them back on the market. In July 2001, it handed over management of Agrogabon to a Malaysian firm, Winnerpac, thereby intending to facilitate replanting of older palm plantations, to expand acreage and to restart oil and soap factories. Privatisation was planned after three years. The plan for restructuring Hevegab is being drawn up by consultants. Other companies have needed wholesale restructuring before being sold. The post and telecommunications authority was split in two in August 2001, with Gabon Poste set for restructuring and Gabon Telecom for privatisation. The shortlist of firms tendering for the latter was announced in July 2002, with a deadline for bids at the end of September. Gabon Telecom includes the fixed-line phone system and the Libertis subsidiary, which runs the country's biggest mobile phone network. Restructuring of the post office is being held up by the processing of money due from the government.

Air Gabon is due for thorough restructuring before being partly opened up to private capital. It has already been audited and its fleet much reduced. Lufthansa Consulting was chosen in November 2000 to draw up a future operating plan. A contract to buy a Boeing aircraft was cancelled in June 2001 at IMF insistence because of the poor terms of the deal.

Ninety per cent of the assets of Gabon's financial system are held by banks, with the balance being held by a few insurance firms and leasing companies. Microcredit does not exist. The banking sector, unlike those of other franc zone countries, has not experienced any large crisis. Thus it has avoided substantial restructuring, largely thanks to its early adoption of prudent credit policy management rules similar to those in Europe. Closure of the *Banque Rurale* and the *Banque Populaire* has left five commercial banks operating, of which the BICIG, the BGFI and the UGB hold 80 per cent of deposits and loans.

Despite a tense situation in 1998 and 1999 arising from the government falling behind in repayments to the banks, the sector is considered generally sound (in December 2000, non-performing loans were 3.6 per cent). An IMF survey in late February 2001 showed however, that only one of the five banks was maintaining all prudential ratios. The situation worsened in 2001 because of a tricky economic climate, with smaller bank deposits, a rise in unhealthy portfolios and lower bank profits. Only the BGFI and CitiBank showed any growth, mainly due to BGFI's investments in the sub-region. The Gabonese Development Bank (BGD) had problems calling in debts from the government. The banking system is hampered by heavy dependence on the state sector and is very vulnerable to budgetary shocks which are amplified by the narrow range of investments.

Only 3 per cent of the population have a bank account with a significant portion of savings not being channelled into the system, either for want of proper structures or because they are recycled into the informal sector. This involves substantial cost and a risk of overindebtedness. Bank deposits are only to 12 per cent of GDP in Gabon, compared with 37 per cent in Kenya, 74 per cent in Mauritius and 55 per cent in South Africa. A debate is under way about using the post office's solid and extensive rural network to make loans to small entrepreneurs. The Central African Regional Stock Exchange (BRVMAC) is due to open in the second half of 2003, though the business sector remains sceptical about its usefulness, given that a stock exchange is being established in Douala. However, the government wants to use it to issue securities to eventually replace the BEAC statutory advances (which were reduced by 10 per cent in 2002).

Gabon's transport infrastructure is weak and poorly maintained. The government began funding an urban road maintenance programme in Libreville and Port Gentil in July 2001 and a three-year road repair project has been launched. However these operations are behind schedule because of delays in receiving government payments. As an impetus to renovating provincial towns, the authorities intend to sponsor an annual festival in a different location each year.

Political and Social Context

Gabon became a multi-party democracy in March 1991. President Omar Bongo, in power since 1967, was the first head of state elected under the new system in 1993 and he was re-elected in December 1998 for seven years. His Gabonese Democratic Party and its allies won 107 of the 120 seats in parliamentary elections in December 2001. Despite this overwhelming victory, a broadly based government was formed bringing in four opposition members, among them the mayor of Libreville, a long-standing Bongo opponent. In a country where dissent is all too rare, some have lamented the weakening of the opposition implied by this absorption into the government. However, it makes Gabon very politically stable.

Instability derives mainly from abroad, coming especially from the neighbouring Democratic Republic of the Congo. President Bongo was a political mediator in Congo-Brazzaville until 14 April 2002, at the request of his father-in-law, President Denis Sassou Nguesso. Bongo's prestige and international involvement was acknowledged in early 2002 when CEMAC appointed him mediator in the political crisis in the Central African Republic.

Gabon's per capita GDP of $6 200 in terms of purchasing power parity (PPP) makes it a middle-income country, in seventh place in Africa, after Equatorial Guinea, Mauritius, South Africa, Botswana, Namibia and Tunisia. Very unequal income distribution remains with almost 80 per cent of both public and private-sector salaries divided among 2 per cent and 20 per cent of employees respectively. The social situation deteriorated in the 1990s because of public investment cuts due to the growing external debt. In 1999, it worsened with wholesale layoffs in mining and oil (Shell left Port Gentil), though the public sector kept its 40 000 or so employees. The UNDP puts total unemployment at 20 per cent, with large regional disparities and with Port Gentil especially affected.

Despite not being included in the HIPC initiative, Gabon has begun drafting a Poverty Reduction Strategy Paper (PRSP) but as yet, does not have the participatory element (national consultation) and poverty definitions (household surveys) the PRSP requires. The government plans to combine the 2003 census with a survey to obtain a clearer view of the poverty situation. Major doubts about available funding for anti-poverty efforts remain.

Gabon's health indicators are similar 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 low figures, notwithstanding the country's wealth, are due to poor organisation and lack of health workers rather than to underinvestment in health[2]. The government has always officially favoured the main towns to the detriment of the basic national infrastructure. Many rural clinics have closed for want of trained staff willing to be posted to the countryside. To remedy this, 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. The 1998 infection rate of 6.5 per cent had risen (according to a survey by the government and the Research and Development Institute in Libreville and Port Gentil) to 6.7 per cent by 2000 (7.7 per cent in Libreville). The authorities are aware of the gravity of the situation and have launched a large awareness campaign.

Gabon introduced universal education in the 1960s, so primary school enrolment is higher than the African average. In 1999, the gross primary enrolment was around 151.5, but this included many repeated years. Only 40 of every 100 children are estimated to complete primary school in the normal time (by the age of 10). Because there is no limit to repeating years, some pupils are as old as 20 before they finish. This poor educational performance is linked to inadequate staff and equipment. Despite lack of reliable data, school

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

attendance is also thought have fallen since the early 1990s. The government has had trouble recruiting teachers since the mid-1990s because of low pay and reluctance to take jobs in rural areas. This produces an ageing corps of teachers and over-crowded classrooms (some in Libreville have as many as 100 children). The high dropout rate comes at very heavy cost. The government estimates that the cost of each year of primary school education is six times greater per child than it should be, putting Gabon among the countries where education spending is least effective.

Gross secondary school enrolment is 53 per cent but falls to 20 per cent net. At university level, the success rate is about 10 per cent. On top of these performance problems, several recent academic years have been partly or completely lost because of strikes. This prospect of a smaller stock of qualified people 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.

Ghana

key figures

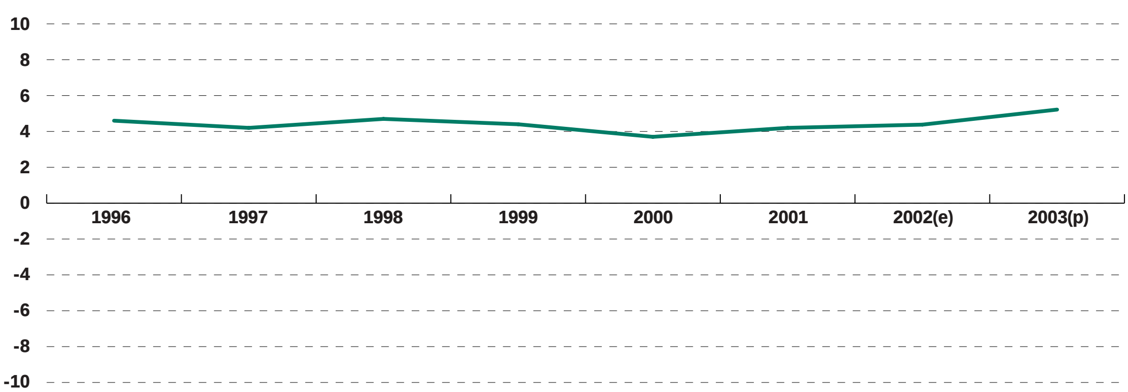
• Land area, thousands of km²	239
• Population, thousands (2001)	19 734
• GDP per capita, $ (2001)	273
• Life expectancy (2000-2005)	57.2
• Illiteracy rate (2001)	27.4

Ghana

THE GHANAIAN ECONOMY appeared to turn the corner in 2001 with real GDP growth taking an upward turn from the declining trend seen since 1998. Real GDP growth in 2001 registered 4.2 per cent from the decade low of 3.8 per cent recorded the previous year. The outlook on growth is stabilisation in 2002 and improvement in 2003 — real GDP growth is estimated at 4.4 per cent and projected at 5.2 per cent respectively. The upsurge of growth in 2001 was due to a recovery in agricultural production aided by improvement in macroeconomic management. Improvement in economic management was underlined by significant improvement in public finances. As a result of greater domestic tax effort and prudence in government spending, the country's budget achieved its highest ever primary balance in 2001. Ghana is expected to maintain a positive primary balance in 2002 and 2003 as fiscal stability is consolidated. Monetary discipline, underlined by growing confidence in domestic assets and a deepening in financial intermediation, has contributed to reduction in inflation and interest rates as well as a return of relative stability in the foreign exchange market. It is expected that inflation will continue to fall in 2002 and 2003. In spite of declining international commodity prices, the external position of the country has improved, and the outlook is for the improvement to be maintained. Ghana is expected to benefit from immediate debt relief from the World Bank and the IMF as well as most other bilateral creditors as part of the HIPC debt relief initiative. Also as part of the HIPC initiative, Ghana has finalised a Ghana Poverty Reduction Strategy Paper (GPRS), which will enhance the considerable stride already made in reducing poverty since the early 1990s. Ghana continues to implement structural reforms towards sustained development. However, in spite of its relatively long history in privatisation, the programme is far from completion. By June 2002 Ghana had privatised 212 enterprises out of 300 earmarked for sale since 1988. The progress in privatisation has been impeded by several problems including limited preparatory work and limited regulatory capacity. Lack of transparency in the privatisation process has necessitated audits of privatised enterprises thereby slowing down the process further. The political atmosphere in Ghana has remained stable. However, the government's drive towards enhancing democracy appears to have slowed down.

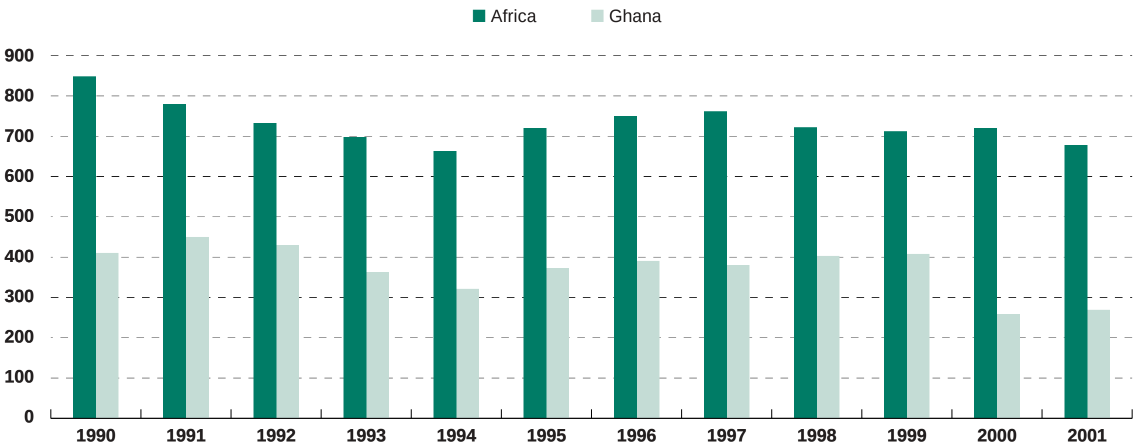
Improvement in macroeconomic management in Ghana is contributing to an upturn in economic growth.

Figure 1 - Real GDP Growth



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

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



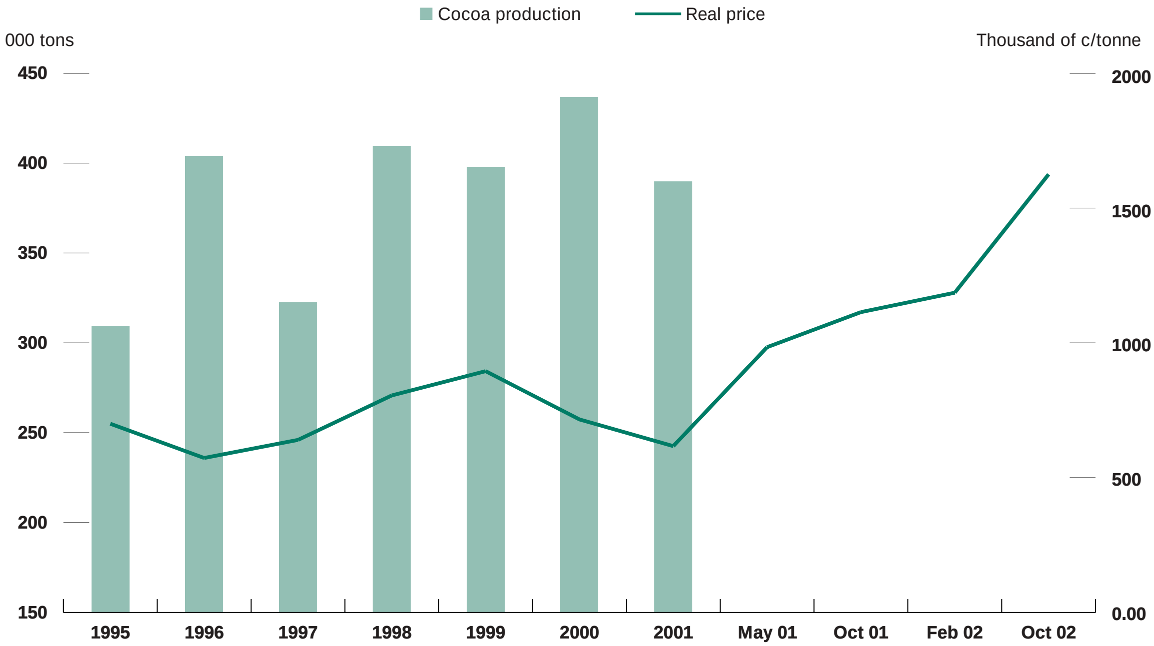
Source: Authors' estimates based on IMF data.

Recent Economic Developments

The Ghanaian economy recovered in 2001 with the real GDP growth rate taking an upward turn from the declining trend seen since 1998. Real GDP growth is estimated to have rebounded to 4.2 per cent from the decade low of 3.8 per cent recorded in 2000. The growth performance in 2001 brought the economy back to the yearly average growth rate of 4.2 per cent experienced during the 1995-99 period. The rebound in economic growth in 2001 was due to a substantial recovery in agricultural production, aided by macroeconomic stability that was enhanced by marked improvements in fiscal and monetary discipline leading to reduction in inflation, interest rates and leading to some stability in the foreign exchange rate of the cedi.

The recent growth performance continued to be led by the services sector, although growth in the dominant sector — agriculture — recovered in 2001 to boost total income growth. The agricultural sector accounted for 35.2 per cent of GDP in 2001 and recorded a growth rate of 4 per cent compared with 2.1 per cent the year before. The strong agricultural growth performance was due largely to the food crops/livestock and fisheries sub-sectors. Available data indicate that with the exception of maize and millet, considerable increases were achieved in the output of other staple crops during the year. The output of maize was stagnant at 280 000 tonnes in 2001 while the output of millet fell to 134 000 tonnes from 169 000 the year before. The decline was due to the vagaries of the weather despite the government's Food Crop Development Project that made foundation seeds available to farmers. On the other hand, in 2001 the production of other food crops was boosted by government initiatives, with crops such as cassava and rice benefiting from the supply of improved seeds, water management and harvesting techniques, support with credit in the form of fertilisers and other agro-chemicals to farmers. In the livestock sub-sector, a mass vaccination of cattle, sheep and goats and poultry contributed to improved production. Cash crop production, however, did not fare well in 2001. Cocoa production declined by about 2 per cent in the 2000/2001 season compared with the strong growth of 6.2 per cent in the 1999/2000. The output of cocoa fell from 436 000 tonnes in 1999/2000 to 389 000 tonnes in 2000/2001. The decline in cocoa output was due to the *blackpod* disease. The government intervened in disease and pest control by organising mass spraying in some of the cocoa growing areas, the first of its kind in the country for over two decades. However, many farmers in areas not covered by the exercise made no efforts to spray their farms and instead waited for the government exercise to reach their areas. The decrease in cocoa output was despite the increase in the producer price by 60 per cent in May 2001 and a further increase of 13.2 per cent in October 2001. It is apparent that the real producer price of cocoa had been falling since 1999 and by 2001 was at the level

Figure 3 - Cocoa Production Levels and Real Producer Price



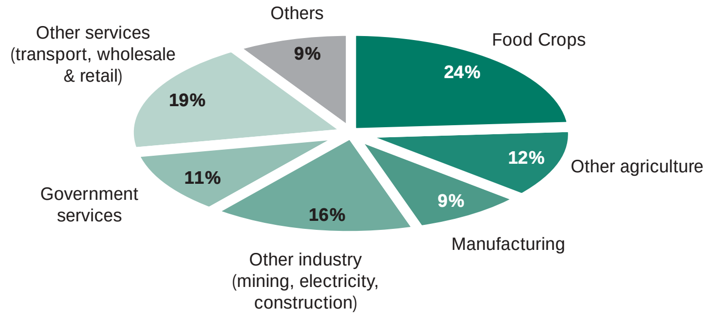
Source: Authors' estimates based on domestic authorities' data.

seen in 1996. Thus, the increases that were granted in 2001 were timely though the impact on production levels could not be expected in the short term.

The industrial sector accounted for 25.2 per cent of GDP in 2001. The sector under-performed in 2001 with a growth rate of 2.9 per cent compared with 3.8 per cent in 2000. The performance of the sector in 2001 was the lowest in recent times, even lower than in a year such as 1998 when Ghana had experienced severe energy shortages. The poorer growth performance in 2001 was reflected in all the industrial sub-sectors. The mining and quarrying sub-sector recorded negative growth of 1.6 per cent compared with positive growth of 1.5 per cent in 2000; mining output especially gold, suffered in 2001 owing to the closure of some mines and the continuing labour unrest in one of the major mines. Gold output declined from 2 503 858 fine ounces in 2000 to 2 289 865 fine ounces in 2001. The manufacturing sub-sector remained stagnant in 2001 with a growth rate of 3.7 per cent compared with 3.8 per cent in 2000. In 2001, manufacturing continued to be negatively affected by the high cost of credit, depressed local demand and, what many local manufacturers considered as unfair competition from abroad, due to distortions in tariffs, import duties and the domestic tax system. The recent performance of the industrial sector, especially that of the manufacturing sub-sector, makes it imperative that Ghana addresses the immediate concerns of the sector if the country's vision of transforming itself into a middle-income country by 2020 through industrial development that is based on an 8 per cent annual growth rate for the manufacturing sector is to be attained. Apparently, the growth performance of the sector since 1995 has been below 3 per cent. The start made by the 2002 Budget in exempting many manufacturing raw materials from attracting the concessionary duty rate of 5 per cent is in the right direction.

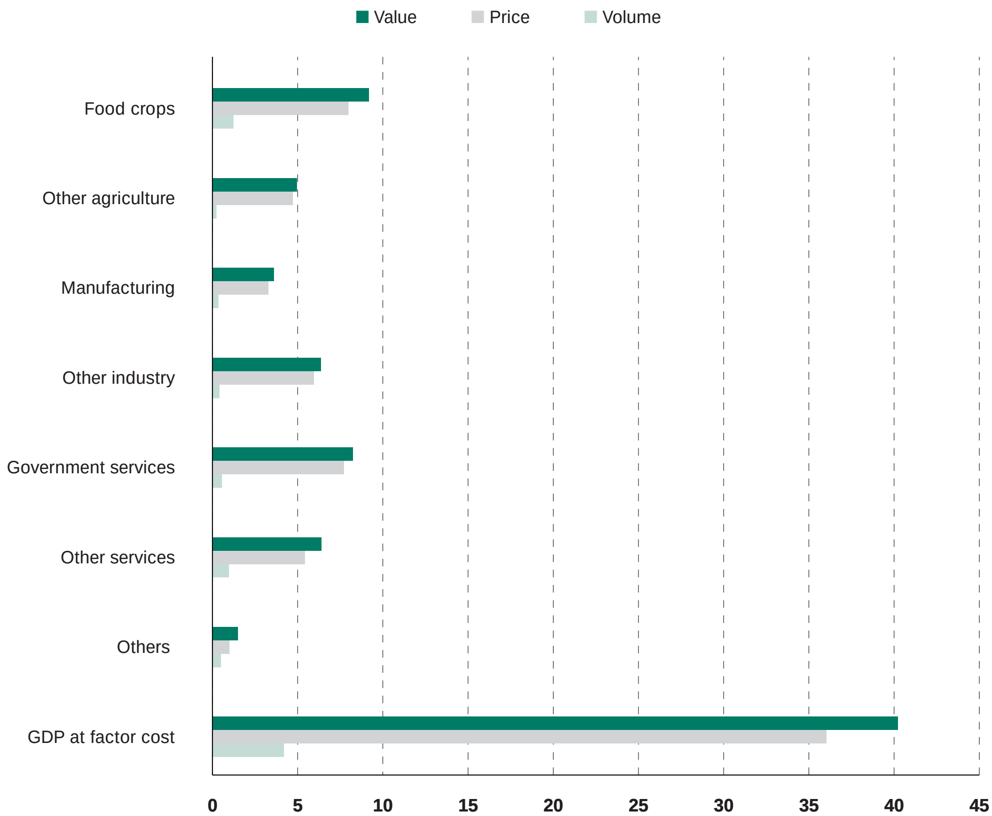
The performance of the services sector remained strong in 2001, albeit at a slightly lower rate of expansion than in 2000. The services sector accounted for 29.3 per cent of GDP and recorded a growth rate of 5.1 per cent in 2001, slightly below the 5.4 per cent achieved in 2000. The slight reduction in the growth rate was due to a reduction in government spending. The wholesale trade, retail trade, restaurants and hotels recorded higher growth rates in 2001, while growth was subdued in finance, insurance, real estates, business

Figure 4 - GDP by Sector in 2001



Source: Authors' estimates based on domestic authorities data.

Figure 5 - Sectoral Contribution to GDP Growth in 2001



Source: Authors' estimates based on domestic authorities data.

services, transport, storage and communications. Within the services sector, the impact of tourism was significant. Provisional estimates indicate that tourism receipts jumped 16 per cent in 2001 following a 10 per cent increase in the number of visitors, which accounted for the strong growth in the hotel and restaurant business. Ghana, which is a relatively new tourist destination, thus appeared to benefit from the decline in tourism in the established tourist destinations in East Africa following the 11 September attacks on the United States.

The demand composition of GDP in 2001 indicates that Ghana's growth performance continues to be driven largely by consumption underpinned by high import levels. Consequently, the country has been unable to push up investment to appreciable levels. The current

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**20.0**	**21.5**	**24.0**	**21.3**	**20.5**	**21.0**
Public	14.2	9.8	9.2	7.5	7.2	7.4
Private	5.8	11.7	14.8	13.8	13.3	13.6
Consumption	**88.4**	**96.1**	**94.5**	**94.7**	**90.2**	**94.8**
Public	14.0	15.0	16.9	17.8	16.1	15.8
Private	74.4	81.1	77.5	76.9	74.1	78.9
External sector	**-8.4**	**-17.5**	**-18.4**	**-16.0**	**-10.7**	**-15.8**
Exports	24.5	32.1	48.8	45.5	48.7	46.8
Imports	-32.9	-49.6	-67.2	-61.5	-59.5	-62.6

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

situation of low capital formation, which has seen public gross capital formation reaching a recent low in 2001, with private investment stagnating, presents a major challenge for sustainable growth without foreign savings. The current structure of demand is expected to be maintained in 2002 and 2003, which behoves on Ghana to undertake the necessary structural adjustment towards increasing investment.

Macroeconomic Policy

Fiscal and Monetary Policy

Ghana's macroeconomic policy in 2001 was dictated by the recent weakening of the country's economic fundamentals, which saw the fiscal and monetary positions deteriorate in response to poor domestic policies and external constraints. The government's macroeconomic policies in 2001 achieved marked improvement in both the fiscal and monetary spheres, which enhanced reductions in inflation and interest rates and created some stability in the foreign exchange market. Consequently, macroeconomic policies for 2002 aimed at laying the foundations for sustained economic growth, are to build on the progress made in 2001, particularly towards a sustained financial stability and intensifying efforts to strengthen public sector financial management.

The government's fiscal activities in 2001 resulted in an overall fiscal deficit of 4.3 per cent of GDP, down from the deficit of 7.9 per cent of GDP in 2000. The domestic primary balance showed a surplus equivalent to 3.6 per cent of GDP in 2001, the highest ever achieved in Ghana. Ghana is expected to maintain a positive primary balance at an estimated 4.5 per cent of GDP in 2002 and 2003. Also significant in 2001, over 68 per cent of the budget deficit was financed from external resources including aid, with 27 per cent financed from net domestic borrowing (from the non-bank sector). This marked a departure from the recent past where over 50 per cent of budget deficits have been financed through borrowing from the banking sector. This shift from dependence on the banking sector contributed to easing interest rates during the year.

The improved fiscal performance in 2001 reflected both greater domestic effort at funding the budget through taxation and prudence in government expenditure. On the revenue side, tax revenue increased by nearly 40 per cent in absolute terms in response to several new taxes and changes in the tax structure during 2001. As a percentage of GDP the tax effort increased from 16.3 per cent in 2000 to 17.2 per cent in 2001. The major yields in taxes in 2001 were recorded in VAT following the reduction of the VAT threshold from cedis 200 million to cedis 100 million in the year. Also, the imposition of a concessionary 5 per cent tax rate on all previously zero-rated imports (except some materials for manufacturing and manufacturing raw materials); the removal of import tax exemptions on all NGO imports or imports of gifts of charitable nature except in areas of health and education; and the imposition of an import duty of 5 per cent on the *cif* value of previously exempted materials for manufacturing and processing of timber contributed to significant increase in import duties. The government reached agreements with creditor banks to restructure a portion of the domestic debt of Tema Oil Refinery (TOR) that had resulted from a failure to adjust petroleum prices in line with world prices in 1999 and 2000. Also, a 15 per cent excise tax and specific duties averaging cedis 200 per litre were imposed on petroleum products. In addition, in order to defray TOR's accumulated debts resulting from previous petroleum price controls, parliament approved the principle that part of any potential savings, which may accrue from future reductions in world oil prices would be used to service the TOR debt. Accordingly, the government's own petroleum price adjustment formula was modified from end-March 2002 to incorporate a petroleum debt service surcharge. Since the beginning of 2002, the government's efforts at enhancing its revenue has been aimed at strengthening revenue collection and administration. A National Tax Audit Team has been appointed as well as a Revenue Agencies Governing Board (RAGB) that is to ensure full implementation of the revenue collecting agencies of the common Taxpayer Identification Number (TIN). In addition, the government is creating a fully integrated Large Taxpayer Unit (LTU) to facilitate the amalgamation of the assessment, processing, and the auditing functions for all the tax liabilities of each large taxpayer. These measures are expected to yield significant benefits to the budget in 2003, as tax revenue increases from an estimated 16.7 per cent of GDP in 2002 to a projected 17.2 per cent of GDP in 2003.

Notwithstanding the improvement in the government's revenue position in 2001, the underlying characteristic of the revenue system is a heavy dependence on a small number of (large) taxpayers who contribute the largest share of tax revenue — about 60 per cent of the total income tax and over 90 per cent of the total turnover for VAT purposes. This highlights the narrowness of the tax base, which impedes its elasticity and buoyancy, and represents a risk to the government of experiencing sharp revenue shortfalls any time the big taxpayers encounter business problems.

On the expenditure side, the government's total outlay in 2001 represented 26.5 per cent of GDP, down on the level of 27.7 per cent in 2000. The reduction in expenditure in 2001 was achieved through reduced expenditure ceilings for administration, services and investment. The government also pursued a deliberate fiscal strategy of piecemeal payment of its debt, especially arrears to contractors, it inherited from the previous administration. The major item of expenditure that increased in 2001 was personal emolument that rose on account of salary increases granted in 2000 but which took effect in 2001. Debt service payments on external and domestic (principal and interest) still constituted a major item of expenditure, representing about 7.9 per cent of GDP. In the event, government outlay for capital expenditure fell from 9.2 per cent of GDP in 2000 to 8.2 per cent of GDP in 2001, the lowest level in about a decade. This decline continued the trend of successive falls in government capital expenditure, which undermines sustainable economic recovery, especially as private capital formation has also stagnated in recent years. An expenditure control measure that was introduced in 2001 was a system of quarterly expenditure ceilings for new commitments. Since the start of 2002, the government has continued to implement measures to control its expenditure by setting up a Public Expenditure Monitoring Unit (PEM) to implement further control measure in government recruitments. Also, special audits of the public payroll that began in 2001 are continuing in 2002 with the government suggesting that unearned/ghost salaries may exceed 10 per cent of the total wage bill. The outlook on total government expenditure is a significant reduction to an estimated 23.8 per cent of GDP in 2002 and 2003, as the expenditure control measures lead to declines in current expenditure.

Monetary policy in 2001 focused on reducing the rate of inflation and the rate of depreciation of the cedi. This followed the turbulence in 2000, which saw the rate of inflation reach 40.5 per cent at end-December 2000 and the cedi depreciate by 49.5 per cent in 2000. In order to refocus the operations of the BOG to ensure the maintenance of price stability, the formulation and implementation of monetary policy

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants[a]	**24.1**	**18.0**	**19.8**	**22.2**	**21.8**	**21.8**
Taxes	14.7	14.8	16.3	17.2	16.7	17.2
Grants	3.6	1.7	2.1	4.1	4.1	3.8
Total expenditure and net lending[a]	**30.4**	**26.2**	**27.7**	**26.5**	**23.8**	**23.8**
Current Expenditure	16.4	16.4	18.5	18.3	15.9	15.7
Excluding interest	*12.1*	*10.8*	*11.0*	*10.4*	*9.4*	*9.2*
Wages and salaries	5.6	5.6	5.2	5.4	4.7	4.5
Interest payments	4.2	5.6	7.5	7.9	6.5	6.5
Capital expenditure	14.0	9.8	9.2	8.2	7.9	8.1
Primary balance	**-2.1**	**-2.6**	**-0.4**	**3.6**	**4.5**	**4.5**
Overall balance	**-6.4**	**-8.2**	**-7.9**	**-4.3**	**-2.1**	**-2.0**

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

and support for the general economic policy of the government, parliament passed a new Bank of Ghana law in December 2001. The law also commits the government to fiscal discipline by limiting the total government borrowing to an amount not exceeding 10 per cent of total revenue at the close of the fiscal year in which the advances were made.

The BOG tightened monetary policy through higher interest rates, though for a short time, and enhanced OMO. The BOG succeeded in reducing the stock of reserve money and the growth of money supply, with the aid of the government's strict control on cash expenditure. Broad money grew on a year-on-year basis by 38.8 per cent in 2001 compared with a growth rate of 47.9 per cent during 2000. The tight monetary stance of the BOG has continued into 2002, with the expansion in broad money supply slowing to 34.5 by end-June 2002.

The expansion in money supply in 2001 was reflected in aggregate deposits. Demand deposits increased by 130.4 per cent; savings deposits increased by 52.8 per cent; and, foreign currency deposits increased by 22 per cent. The stronger growth in aggregate deposits reflected growing confidence in domestic assets, and marked a departure from the increased "dollarisation", which had been the recent phenomenon of the monetary system. The growth in deposits in general also suggested a deepening in financial intermediation by the commercial banks, which was consistent with the overall improvement in the macroeconomic conditions in the country.

The results of movements in monetary aggregates in 2001 were dramatic reductions in inflation and interest rates, and the return of relative stability to the foreign exchange market. From a peak of 41.9 per cent at the end of March 2001 consumer price inflation fell to 21.3 per cent at the end of December 2001. The rate of inflation has continued to fall since the start of 2002, reaching 14.9 per cent at end-May 2002. For the year 2002, inflation is estimated at an annual average of 14.3 per cent, with an outlook of a decline to 12.4 per cent in 2003. The declining trend in the rate of inflation in 2001 has also been helped by the good harvest in food crops as well as the relative stability in the cedi. The weighted average interest rate on the 91-day treasury bill declined from 47 per cent at end-June 2001 to 28.9 per cent at end-December 2001. As part of its strategy of easing the burden of domestic debt on Ghana's economy, the government began in September 2001 to extend the maturity of its domestic debt by issuing three-year inflation-indexed bonds called Government of Ghana Index-Linked Bonds (GGILBs). By end-2001, approximately one fifth of the stock of 90-day treasury bills had been replaced with the new indexed instruments. The declining trend on the rate of the treasury bill has been maintained, with the average rate falling to 24.6 by June 2002. Other interest rates have followed the declining trend of the treasury bill rate. Savings deposit rates declined from a range of

1-35 per cent at the beginning of 2001 to 1-28 per cent by the end of December 2001. However, the decline in interest rates was not fully reflected in lending rates of commercial banks, underlying the continuing inefficiencies in the banks that make it difficult to cut lending rates. Bank lending rates fell only marginally from a range of 39-55 per cent at end-2000 to 39-53 per cent at end-2001. The inability of lending rates to come down even as inflation fell and relative stability was achieved in the exchange rate of the cedi was a constraining factor especially to industrial expansion.

On the foreign exchange market, the exchange rate of the cedi was stable in nominal terms against almost all the major currencies in the inter-bank and the forex bureaux markets during 2001. On the inter-bank market and the forex bureaux respectively, against the US dollar, the cedi depreciated by only 3.7 per cent and 7.7 per cent in 2001, as against the depreciation of 49.5 per cent and 49.8 per cent during 2000. The government maintains that the stability on the foreign exchange market has pertained without any interference on the foreign exchange market by the BOG. Rather, it has been driven by lower inflationary expectations, tighter monetary and fiscal policies and a stand down on foreign debt payments (excluding debts owed to multilateral institutions) as a result of the decision to access the HIPC initiative. At the same time, it is argued that the government's fiscal strategy of piecemeal payment of its debt (especially its arrears to contractors) contributed to depressed demand on the foreign exchange market in 2001 and that the stability of the cedi would be undermined as the government resumes normal repayment of its debts. This sentiment appeared to be borne out by the aggregate 10.63 per cent depreciation of the cedi against the US dollar from January to August 2002.

External Position

Ghana has maintained a most liberalised trade regime, which has been achieved by a long history of reforms. As a result of progressive reductions in external trade tariffs, the country's top rate stood at 22 per cent in 2001, with the trade tariff regime simplified to four lines. In 2001, the external sector policy of the government was aimed at building up international reserves to cushion the economy against external shocks. The policy was in response to the large reserve drawdown in the wake of the external trade shock in 2000. The government reiterated the same external policy stance of improving the external position of the country and to accumulate external reserves for 2002.

Ghana's external performance improved in 2001. The trade deficit narrowed from 16.1 per cent of GDP in 2000 to 14.1 per cent of GDP in 2001, the level of both exports and imports fell in 2001. Total exports of goods fell to $1842 million in 2001 from $1936 million the previous year. The decline was due largely to under-performance of both cocoa and gold, the major export earners of the country. Gold exports fell from $702 million in 2000 to $625 million in 2001 as a result of reduced export volumes and lower international prices. Similarly, export receipts from cocoa fell from $436 million in 2000 to $378 million as a result of reduced export volumes. Imports of goods were also lower in 2001, at $2 691 million from $2 766 million with a larger fall in non-oil imports as a result of the government's reduced expenditure; oil imports were also lower as a result of the lower international price of crude oil. The narrowing of the trade deficit in 2001 enabled the current account deficit to contract from 7.4 per cent of GDP in 2000 to 1.3 per cent of GDP in 2001. Besides, the balance of payments gained from increased inflows of official capital and the stalling of repayments to Paris Club creditors and other bilateral commitments following Ghana's decision to access the HIPC initiative. This contributed to the overall balance of payments improving from the deficit of $167 million in 2000 to a surplus of $144 million in 2001, which enabled Ghana to achieve a modest increase in its external reserves, from the equivalent of less than one month's cover for imports at end-2000 to about 1.5 months cover for imports at end-2001. The outlook on the external position is for further improvement in the trade account in 2002, with the trade deficit estimated to fall to 8.8 per cent of GDP, while the deficit is projected to rise to 13 per cent of GDP in 2003.

Ghana's total external debt stood at $6.03 billion at end-2001. The total debt was made up of 92 per cent in long-term debt (shared between multilateral creditors, 71 per cent and bilateral creditors, 29 per cent), 6.6 per cent in medium-term debt and 2.5 per cent in short term debt. The country continued to reel under a heavy debt burden with the debt/GDP ratio rising from a yearly average of 95.3 per cent in 1997-2000 to 138 per cent in 2001, while the debt service ratio has stagnated at an average 22 per cent since 1997. Ghana reached the decision point under the Enhanced HIPC initiative in January 2002 and the IMF and the World Bank agreed in February 2002 to support a comprehensive debt reduction package for Ghana. Total debt relief from all of Ghana's creditors is worth about $3.7 billion, which is equivalent to $2 186 billion in NPV terms or 56 per cent of total debt outstanding after the use of traditional debt relief mechanisms. Under the decisions

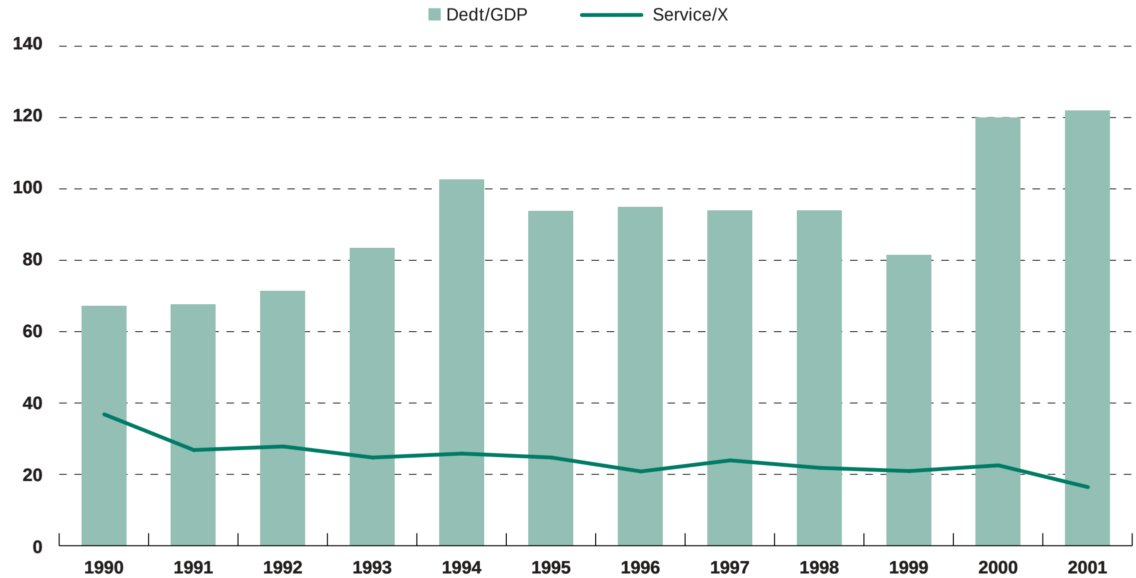
Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001 (e)	2002 (e)	2003 (p)
Trade Balance	-3.9	-16.0	-16.1	-14.1	-8.8	-13.1
Exports of goods (f.o.b)	22.2	25.8	37.9	35.2	38.9	37.2
Imports of goods (f.o.b)	-26.1	-41.8	-54.1	-49.3	-47.6	-50.3
Services	-4.5	-2.3	-1.6	0.1		
Factor income	-2.0	-1.7	-2.1	-1.3		
Current transfers	8.0	8.0	12.4	14.0		
Current account balance	**-2.3**	**-12.0**	**-7.4**	**-1.3**		

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

taken by the World Bank and the IMF, the World Bank's debt relief — $781 million in NPV— will be delivered over a 20-year period and will cover on average 67 per cent of debt-service obligations falling due to the Bank. Debt relief provided by the IMF — $112 million in NPV terms covering an average of 49 per cent of debt-service obligations — will be delivered over the next eight years. Both the World Bank and the IMF will begin providing debt relief immediately, as will most official bilateral creditors.

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



Source: World Bank.

Structural Issues

Ghana continues to make structural reforms towards increasing private sector participation in the economy and to attract investment in areas of its comparative advantage. However, in 2001 progress was very weak on the structural front. Although the government declared an era of "golden age of business" with emphasis on private sector development, not much was seen in this direction except an initiative under the President's Special Initiative on Accelerated Export Development. This initiative covered two areas of intervention, namely Integrated Action Programmes for Cassava Starch Production and Export Action Programme for Garments and Textiles. The government set up the AGOA National Committee with advisory sub-committees to enhance trade relations with the United States in 2001, followed by the establishment in April 2002 of an Investors' Advisory Council, chaired by the President and which includes top-level executives from the Ghanaian business community, multinational companies investing in Ghana, and other major international companies to advise the government on attracting foreign investment to the country.

The country's privatisation programme, which started as far back as 1988 was — as in the case of other sub-Saharan countries such as Uganda, Kenya and Tanzania — intended to reduce the size of the public sector including the drain on government finance by loss-making public enterprise, to improve the performance of public enterprises by mobilising private sector management and capital, and to create employment. The programme started with 300 public enterprises in various sectors slated for privatisation. Although no completion date was earmarked, by June 2002, 212 enterprises had been divested. The government has favoured the outright sale of assets, with 112 enterprises divested along that route; sale of shares in 31 enterprises; joint venture in 21 enterprises; while six enterprises have been offered on lease; and 42 enterprises liquidated. Some of the constraints which have impeded the progress of the process including limited preparatory work, limited regulatory capacity and the influence of special interest groups stem from the initial omissions to the programme. For instance, it was not until 1993 that an agency, the Divestiture Implementation Committee (DIC), was set up to run the process, and a formal law was enacted to back the programme. Interestingly, this law indemnified the government from prosecution for illegal transactions in state-owned property. This explains in part, why the process has been slowed down, with the new administration that took office in 2000 choosing to investigate allegations of lack of transparency and corruption in earlier divestiture. In terms of ownership, about 70 per cent of the enterprises divested have been acquired by local investors. The rather low patronage of foreign investors, which is contrary to expectations is due to the fact that after the initial divestiture of major enterprises such as Ashanti Goldfields Corporation (AGC), Social Security Bank (SSB), Ghana Ports and Harbours Authority (GPHA), Lever Brothers Ghana Limited, Ghana Cement (GHACEM) and the Continental Hotel, the remaining are too small to attract foreign buyers. Nevertheless, privatisation has achieved significant results in terms of some of the initial objectives. From an assessment of the impact of the programme, successes have been achieved in the following areas: increase in sales as a result of improved productivity arising from injection of new investment and improved management practices; increase in installed capacity as well as capacity utilisation as a result of new investment; and increase in employment. These positive results are evident in major divested enterprises such as AGC, Golden Tulip Hotel, Tema Shipyard, Tema Steel Company and Coca-cola Ghana Ltd.

Although the government avowed at the start of 2001 that divestiture of state holdings in commercial enterprises was a core component of its strategy to promote private sector development, the privatisation programmed remained on hold during the year. Out of a total 15 enterprises the government expected to sell during the year, only one – Mim Timber Company – was divested. The government rather concentrated its efforts on financial and management audits of 11 major public enterprises, including Electricity Company of Ghana, Ghana Water Company, and Tema Oil Refinery. These audits were completed in December 2001. Similar audits for Cocoa Marketing Board (COCOBOD), Volta River Authority (VRA), and

GPHA have been scheduled to be undertaken in 2002. The government restructured the implementation agency by setting up a new Board for the DIC to oversee and ensure the transparency of the asset sales. Since the beginning of 2002, the government has set its privatisation agenda to include a "fast track" sale of state holdings in 12 companies, including Ghana Telecom for a projected yield of at least $50 million (1/2 per cent of GDP). Already, the government has successfully sold 25 per cent of its shares in Cocoa Processing Company on the Ghana Stock Exchange. Other proposed privatisations for 2002 include the National Investment Bank and Ghana Commercial Bank; and the offer for sale of the Electricity Company of Ghana, for which a transactions adviser has already been appointed and valuations completed. The course of the privatisation programme has not been helped by the current stalemate between the government and investors over the future of a number of major investments including Ghana Telecom and WESTEL. With respect to Ghana Telecom, since the expiry of the contract at the start of 2002 of Malaysia Telecom (MT) to strategically manage the company, the government was involved in a legal tussle on MT's future involvement in the company. MT has since October 2002 agreed to relinquish its interest in the company to the Ghana government. Similarly, there is stalemate over the future of WESTEL, the second national telecommunication operator in the country, which has been slapped with a $70 million penalty for failing to meet its license conditions.

In line with the government's objective of removing public subsidies towards total cost recovery in the provision of public utilities, the Public Utilities Regulatory Commission held public hearings and finalised plans during 2001, for a phased transition to full cost recovery in the electricity sector, and the implementation of an automatic tariff adjustment formula for electricity tariffs. A similar consultative process was held on a transitional plan for cost recovery in water tariffs. The implementation of both plans for electricity and water began during the second half of 2002.

In the financial sector, the government's reform process in 2001 included the revision of the Bank of Ghana Law, which was passed by parliament in December 2001. The new law revises the legislation governing the central bank with a view to making it more independent and vesting it with the requisite powers to perform its functions effectively. Progress in this respect was reinforced by the Bank of Ghana's divestiture in December 2001 of all remaining shareholdings in financial institutions that it supervises. In order to improve the regulatory framework of the banking industry, and to enhance the development of an internationally competitive banking industry, the government commenced in 2001 the Real Time Gross Settlement (RTGS) System. The Ghana RTGS System combines electronic and telecommunication technology to link the head offices of banks to the BOG to enable electronic payments among banks on a gross basis and in real time. A new banking law to govern the system also includes an anti-money laundering bill.

Political and Social Context

Ghana's political atmosphere remained stable in 2001, with the Kufour Administration that won democratic elections in 2000 firmly in control. However, constitutional bodies set up in the country to promote democracy, and enhance probity and accountability including the Commission on Human Rights and Administrative Justice (CHRAJ), the Serious Fraud Office (SFO) and the Economic Crime Unit of the Ghana Police Service appeared to lack the capacity to operate effectively. The government's zero tolerance to corruption initiative that won it much acclaim in 2000, however, now appears to lack focus and direction. The anti-corruption drive received a big thumbs-up in 2001 following the successful and fast track prosecution of two former ministers of state. Since then, the government anti-corruption drive appears to have slowed down. Key bodies including the Office of Accountability, under the direct supervision of the presidency, promised by President Kufour in his first address to parliament, is yet to be established. Moreover, the code of public conduct, which anti-corruption activists saw as a way of checking public officers from misappropriating public funds is yet to see the light of day.

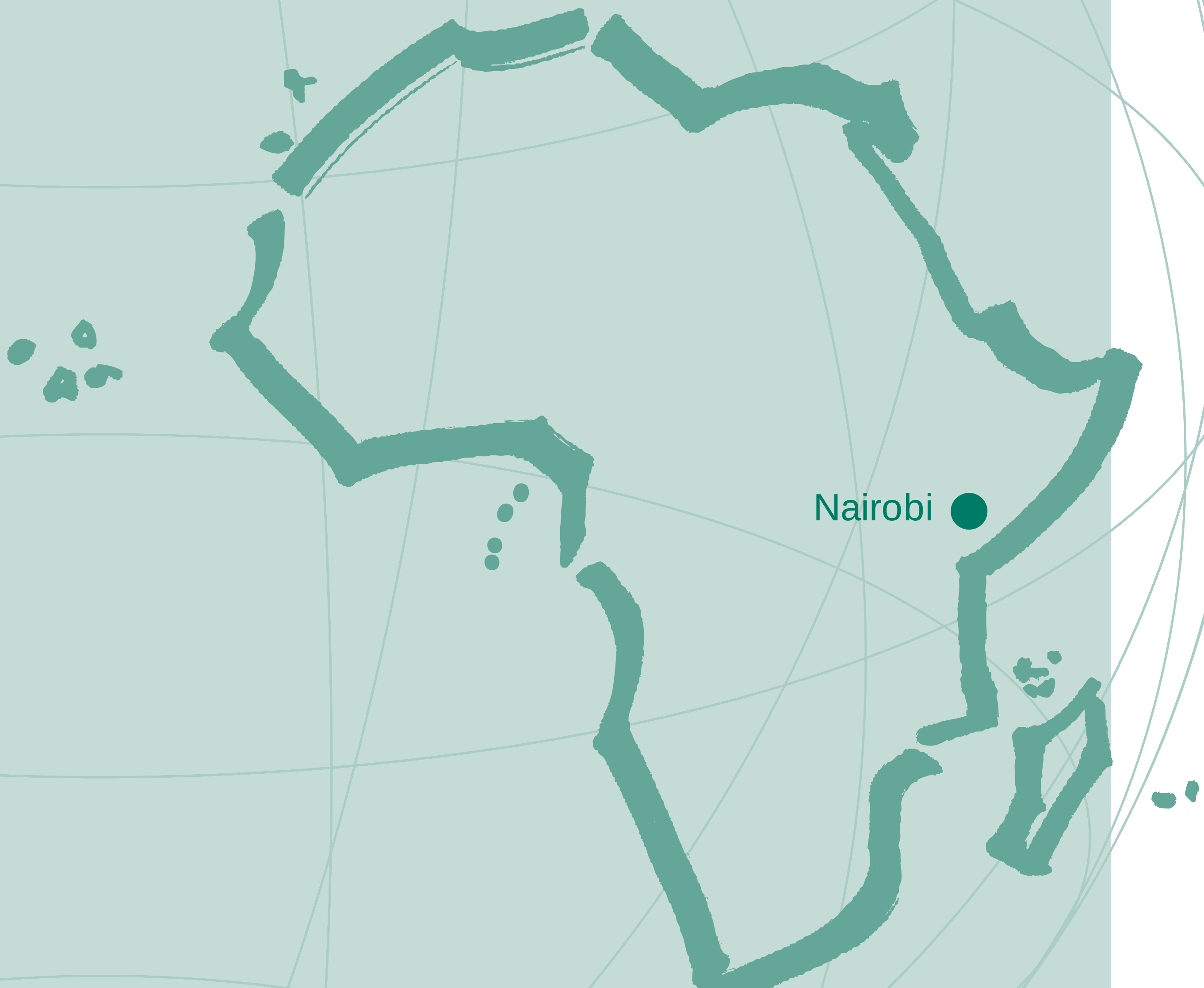
Ghana has made strides in reducing poverty since the early 1990s, which saw the overall poverty rate fall from 51.7 per cent in 1992 to 39 per cent in 2001. The government has made poverty alleviation a cornerstone of its development policy. As a requirement of its option to take advantage of the HIPC initiative, the government has finalised a GPRS to supplement its efforts at poverty alleviation. The main goal of the GPRS is to ensure a sustainable and equitable growth, accelerated poverty reduction and protection of the vulnerable and the excluded within a decentralised democratic environment. The strategy is aiming in the medium to reduce the incidence of national poverty from 39 per cent to 32 per cent, extreme poverty from 27 per cent to 21 per cent and poverty among food crop farmers from 59 per cent to 46 per cent by 2004. The attainment of these targets is conditional on massive international assistance, which in turn requires the government to maintain reforms to ensure macroeconomic stability, strengthen governance and implement an agreed set of measures in priority areas. As a prelude to the implementation of the GPRS, the government instituted the Emergency Social relief Programme (ESRP), which was launched in July 2001 and sought primarily to reduce poverty among the poor by increasing employment opportunities through the provision of credit to micro and small-scale enterprises. The government is making determined efforts at meeting the targets of the GPRS. In 2002, the first year of the implementation of the GPRS, the government is committed to spending 34.4 per cent (compared with 31.3 per cent in 2001) of total discretionary expenditure for the provision of basic services for the poor, including free medical attention for pregnant women, infants and the aged and the reduction in the rate of HIV/AIDS infection. Similarly, the government has committed itself to increasing expenditure on the key social services of health and education.

In order to improve health delivery and access in the country, the government gave indications in 2001 of moving towards a health insurance scheme for Ghanaians that includes the setting up of a Health Insurance Fund. In 2001, significant improvement was made in public health delivery, including immunisation coverage and access to health services of the aged, under-fives and pregnant women. Infant vaccination for the six killer diseases rose from 70 per cent in 2000 to 72 per cent in 2001. Also, immunisation of DPT3 improved from 80 per cent in 2000 to 83.8 per cent in 2001, while the percentage of children who were fully immunised was 68 per cent in 2001. With regard to the HIV/AIDS menace, following the successful introduction of the female condom and the inauguration of the National AIDS Commission in 2000, the government completed negotiations for access to antiretroviral drug and therapy for HIV/AIDS patients in 2001. The government signed a five-year contract for the supply of Nevirapine tablets for prevention of mother to child transmission of HIV. These initiatives have come as HIV/AIDS has assumed an increasing trend in the country. The government's own estimates for 2001 put the infection rate of HIV/AIDS at 3-4 per cent of the adult population. By May 2001, it was reported that there were 47 444 (up from 41 229 at end-September 2000) cases of full-blown AIDS with a higher incidence among the 25 to 34 year group. Since the start of 2002, the government has focused attention on seven specific areas of health service delivery including HIV/AIDs and STDs, malaria, guinea worm, tuberculosis, reproductive and child health, expanded programme of immunisation and emergency care. In addition, it is pursuing a health investment programme that places greater efforts on the expansion of training institutions and the provision of staff accommodation as a step towards attracting staff to deprived areas.

The government's education policy continues to emphasise universal basic education and the reduction of adult illiteracy. The education indicators for Ghana continue to improve with the total gross primary school enrolment rate up to 84.8 per cent for boys and 74.4 per cent for girls in 2001. Also, the figures suggest that the significant gender gap in primary school enrolment between boys and girls is narrowing. In 2001, the government focused attention on putting in place organisational structures to ensure community involvement in the planning and delivery of education. Towards this end, the government established District Education Planning Teams; Education Oversight Committees; and instituted School Performance

Appraisal Meetings between teachers and communities in all the districts of the country. In the first year of implementation of the GPRS, the government's education programme is directed at addressing five key problems in the sector: low enrolment, low quality of education, inadequate number of students with the right skills for work, institutional deficiencies, and inadequate infrastructure. In addition, the government has launched an incentive scheme to attract and retain trained teachers in rural areas. As part of the incentive scheme in 2002, the government has distributed a total of 500 motorcycles and 15 000 bicycles to needy teachers.

Kenya



key figures

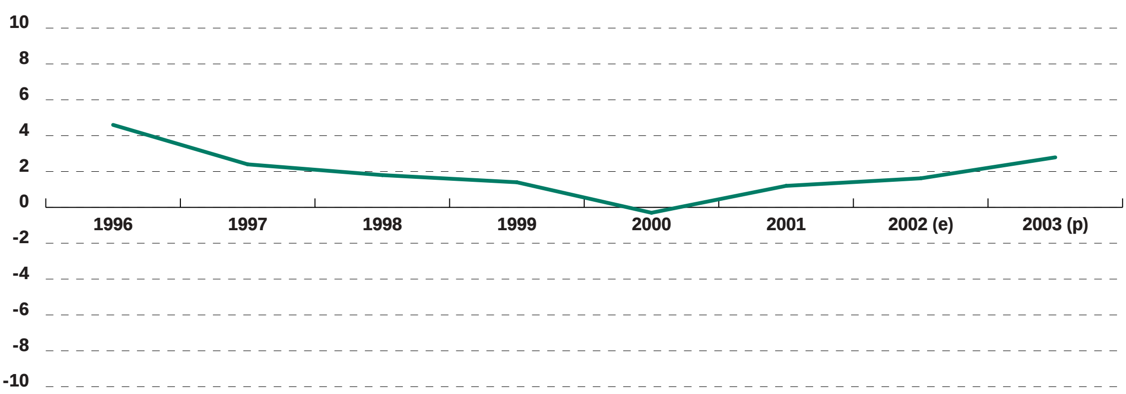
• Land area, thousands of km²	580
• Population, thousands (2001)	31 293
• GDP per capita, $ (2001)	364
• Life expectancy (2000-2005)	49.3
• Illiteracy rate (2001)	16.6

Kenya

The Kenyan economy resumed positive growth in 2001, with real GDP growth of 1.2 per cent from the negative 0.2 per cent recorded the previous year. The outlook is for Kenya to maintain positive but subdued growth, estimated at 1.6 per cent in 2002 and projected to rise to 2.8 per cent in 2003. The resumption of positive growth in 2001, however, did not reverse the five successive years of decline in income per head. Kenya's recent poor economic performance has aggravated the unemployment and poverty situations in the country, with growth in wage employment decelerating between 1998 and 2001, the first downturn since independence. The percentage of Kenyans living below the poverty line has also increased since 1997. Kenya's resumption of positive growth in 2001 was accompanied by a sharp deterioration in the government's budgetary position following increased government expenditure amidst poor domestic revenue performance that was exacerbated by the continuing withholding of international assistance due to governance related problems. The budgetary position is expected to continue to worsen in 2002 and 2003, with increased expenditure amidst stagnation in revenue. In line with the Poverty Reduction Strategy Paper (PRSP) commitments, government expenditure currently underpins core poverty alleviation programmes and makes enhanced budgetary allocations to the programmes. Kenya's monetary authorities continued in 2001, for the fifth consecutive year, to achieve success in maintaining stability of domestic prices. Inflation fell from 6.2 per cent in 2000 to 0.8 per cent in 2001 and is estimated to remain low in 2002 and 2003. In 2001, nominal interest rates were on a downward trend and given the low rate of inflation, all real interest rates

The resumption of positive growth in Kenya has not reversed the years of decline in income per capita.

Figure 1 - Real GDP Growth



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

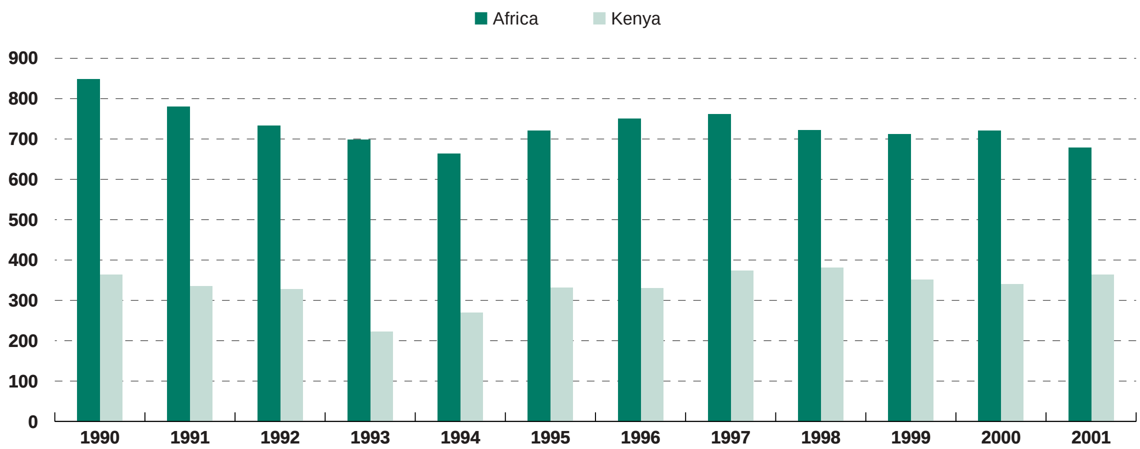
were positive. Kenya's external sector worsened in 2001 as the major export commodities suffered a decline in international prices. The outlook on the external position is further deterioration in the trade accounts as imports continue to rise whilst exports stagnate. However, owing to lack of new lending the stock of external debt continued on a downward trend in 2001. Kenya continues to undertake structural reforms to diversify the economy. Since 1991 the country has pursued a privatisation programme and by June 2002, the governments had divested 174 enterprises out of a total 207. The government's commitment to privatisation and the pace of the process remain an issue of contention with some international aid donors. Kenya's political environment was under considerable strain as the country moved towards elections in December 2002. Bitter struggles ensued for the succession to the presidency, which proved a test for the country's democratic system. Kenya's democracy deepened with the December 2002 elections as the opposition won a sweeping victory to usher in Mr Mwai Kibaki as the new president.

Recent Economic Developments

The Kenyan economy resumed positive growth in 2001 in the face of considerable adversity. Real GDP growth is estimated at 1.2 per cent in 2001 compared with a negative 0.2 per cent the previous year, and a yearly average of 2.8 per cent during the 1995-1999 period. The economy's resilience and dynamism in 2001 was demonstrated by the fact that the marginal economic upturn occurred at a time of a virtual freeze on aid flows, on which the 2001 budget had depended; there were poor commodity prices; the country suffered a decline in both savings and credit, and there was political uncertainty about pending presidential and parliamentary elections that continued to dampen investor confidence. At the same time, the marginal economic upturn in 2001 did not reverse the continual decline in income per head in Kenya, which had continued for five successive years.

The increase in total output in 2001 was driven by improved agricultural production. The economy also

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



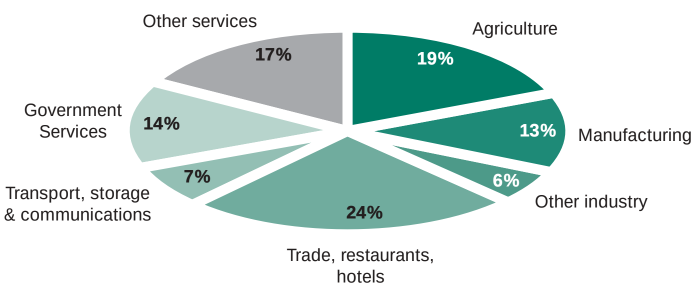
Source: Authors' estimates based on IMF data.

benefited from prudent macroeconomic policies that created subdued inflation and stable foreign exchanges and, to some extent, inspired a degree of certainty and confidence in a time of crisis. Agriculture accounted for 19 per cent of GDP and employed about three-quarters of the active population. Following the severe drought in 2000, improved weather conditions in 2001 contributed to significant expansion of agricultural output. The sector grew by 1.2 per cent in 2001 compared the decline of 2.1 per cent in 2000. The expansion in 2001 was experienced across all the sub-sectors. In the food crop sub-sector, maize output rose from 25 million bags in 2000 to 30 million bags in 2001. The production of wheat improved significantly from 70 500 tonnes in 2000 to 131 800 tonnes in 2001. Sugarcane production, however, declined by about 10 per cent from 3.90 million tonnes in 2000 to 3.5 million tonnes as a result of a host of factors including competition from cheap imports, and the long spell of dry weather during 1999-2000. Cash crop production also increased with gains in tea and cotton, while the output of coffee fell. The favourable weather conditions in 2001 coupled with improved crop husbandry contributed to the output of tea increasing by 24.7 per cent from 236 300 tonnes in 2000 to 294 600 tonnes in 2001. The cotton sub-sector was revived in 2001. The ginneries intake of cotton increased from 508 tonnes in 2000 to 535 tonnes in 2001. On the other hand, coffee output dropped to 51 700 tonnes in the 2000/01 crop year from 100 700 tonnes in the previous crop year. Coffee production continued to suffer from the low global price, which had caused the domestic producer price to tumble from KShs.25 718 per 100 kg in 1998 to KShs.11 776.05 in 2001. Other factors that contributed to the declining coffee output were the administrative problems within the domestic coffee co-operatives, low input application due to high input prices, and uncertainties surrounding current reforms in the sub-sector. Since the beginning of 2002, Kenya has been experiencing good rains, which is expected to boost agricultural production. In particular, tea production is expected to improve as well as the prices as relative stability returns to Afghanistan, the major consumer of Kenyan tea.

The Manufacturing sector contributed about 13 per cent of GDP and expanded by 0.8 per cent in 2001, compared with negative 1.4 per cent in 2000. Manufacturing was particularly boosted in 2001 by growth especially in textile production at the export processing zones (EPZs), where total sales grew by 48 per cent in the year, benefiting from the African Growth and Opportunity Act (AGOA) initiative. The improved performance of the manufacturing sector in 2001 was largely as a result of a cessation of power rationing and improved agricultural production. Agro-based industries performed well with higher production levels of processed foods. Other industries that achieved expanded output include wood and cork and basic industrial chemical products; the production of household and other chemicals, plastic products and electrical machinery was higher in 2001. These manufactures gained from expanded market outlet through the AGOA, Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC) arrangements. Kenya's manufacturing, however, continued to be hampered by the poor state of the country's infrastructure, high electricity tariffs, high interest rates, low consumer demand and lack of competitiveness. In view of the challenges facing the sector, especially competition from COMESA products, the 2002/03 budget has proposed a reduction of taxes on all raw materials and capital goods that are currently taxed at 3 per cent and 5 per cent to zero per cent in order to lower the cost of production and enhance Kenya's competitiveness in the region.

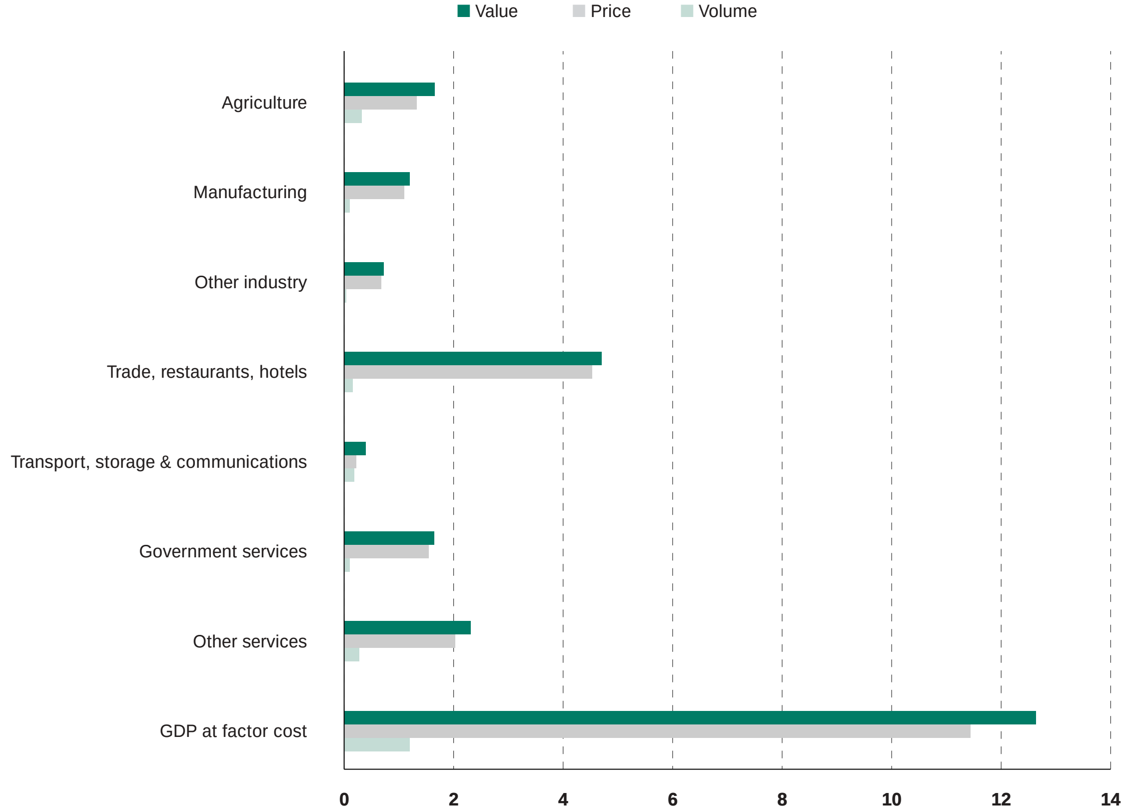
In the services sector, the transport, storage and communication sub-sector increased significantly with air transport, road transport and communications achieving significant expansion. Kenya's air transport industry expanded by 23.9 per cent in 2001 in spite of the uncertainties created by the 11 September events. Telecommunications continued to gain from the liberalisation of the sector. Telephone connections rose by 5.7 per cent from 304 000 in 2000 to 321 000 in 2001, with the cellular telephone services, internet services and cyber cafes, also expanding. Also, trade, restaurant and hotels activities achieved a modest growth of 1.3 per cent in 2001 from 1 per cent the previous year. Tourism registered increased earnings of 12.5 per

Figure 3 - GDP by Sector in 2001



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

Figure 4 - Sectoral Contribution to GDP Growth, 2001



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

cent in 2001 despite the significantly adverse effect of the 11 September attacks on the United States, which resulted in reduced numbers. Prior to the attacks, Kenyan tourist revenues were catching up, rising rapidly in the aftermath of the US embassy bombing in 1998. The effect of the 11 September attacks was experienced in reduced numbers as the 730 000 tourists that arrived in Kenya in 2001 represented a level far lower than experienced historically. The tourist industry faces an uncertain future following the terrorist attacks in Mombassa in November 2002. The attacks could not have happened at a worse time as the industry was beginning to pick up after the earlier attacks. Government services also rose significantly in 2001 by

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**21.8**	**16.2**	**15.4**	**14.5**	**14.7**	**14.8**
Public	4.3	5.5	5.5	5.0	5.2	5.2
Private	17.5	10.6	9.8	9.4	9.5	9.6
Consumption	**84.1**	**89.6**	**94.1**	**94.5**	**95.3**	**96.4**
Public	14.8	17.0	17.5	16.8	16.8	16.9
Private	69.3	72.6	76.6	77.7	78.5	79.5
External sector	**-5.9**	**-5.8**	**-9.5**	**-9.0**	**-10.0**	**-11.3**
Exports	32.8	25.5	26.6	26.2	26.1	25.8
Imports	-38.7	-31.3	-36.1	-35.1	-36.1	-37.1

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

11.9 per cent from 7 per cent in 2000, due in part to expansion in the key social services of education and health as a result of greater public outlays.

Kenya's growth performance is characterised by low and declining savings. High consumption (public and private) and low savings have led to declining public and private investment. The poor rate of capital formation, which at 14.5 per cent of GDP in 2001 continued a declining trend over an extended period of time, has been a major contributory factor to the low growth performance of the economy. Total consumption is projected to maintain the upward trend in 2002 and 2003, thus leading to continued stagnation in domestic investment.

Macroeconomic Policy

Fiscal and Monetary Policy

Kenya's recent fiscal policy has adhered to the country's Medium Term Expenditure Framework (MTEF), which links policy, planning and budgetary planning and is intended to strengthen macroeconomic management. In 2001/02, in order to maximise returns from public expenditure, changes in budgetary planning, execution and monitoring were undertaken. The Treasury introduced from 2000/01 a new format of the vote book to strengthen cash-flow planning and management. The government also created separate bank accounts for each line ministry (vote) in each district to improve budget execution at the district level. Measures were also taken in several areas to improve fiscal transparency, including strengthening the office of the Controller and Auditor-General through recruiting several new staff. The government also resumed its retrenchment exercise with the retrenchment of 23 000 employees. On the revenue side, the government sought during 2001/02 to enhance revenue through tax administration measures. The government effectively raised personal income tax by taxing housing allowances on an upper tax bracket. The VAT regulations were also amended, in order to expand the VAT base, by making it compulsory for taxpayers to keep stock records. In addition, some preserved food items already taxed at the manufacturing level, were made to be taxable up to the retail level. Besides, transparency-enhancing measures were introduced by eliminating import duty exemptions in favour of explicit budgetary provisions.

In 2001/02, although the Kenyan government maintained a tight fiscal stance and implemented both expenditure control and revenue-enhancing measures, the budget outcome deteriorated sharply. The revenue performance remained poor, with total revenue as a percentage of GDP falling from 26.8 in 2000/01 to 22.6 in 2001/02. The government's revenue position continued to suffer from the weak economic performance. Other specific factors contributing to the poor revenue situation included the government's failure to carry through its privatisation of Kenya Telecom, and the continued suspension of international assistance to Kenya. On the expenditure side, total expenditure as a percentage of GDP fell from 22.4 in 2000/01 to 21.9 in 2001/02. The major item of expenditure that increased in 2001/02 was government purchase of goods and services, as the government continued its projects under the El-Niño Emergency Project. Capital expenditure also increased due to road construction works undertaken during the financial year. The overall budget deficit increased sharply in 2001/02 reaching 2.8 per cent of GDP from the surplus of 0.3 per cent of GDP in 2000/01. Consequently, the primary balance fell from 3.3 per cent of GDP in 2000/01 to 0.7 per cent of GDP in 2001/02. The outlook on the budget position is moderation in the overall deficit estimated at 2.1 per cent of GDP in 2002/03, with an improvement in the primary balance to 2.3 per cent of GDP. A significant feature of Kenya's recent budget situation has been the sharp increase in the government's domestic arrears accumulation, which has brought about an increase of new claims of pending bills. At the start of 2001/02, the recorded stock of pending bills had increased to about 1.2 per cent of GDP. Obviously, the pending bills and the government's domestic debt will be expected to rise if donors continue to withhold funding programmes. Since the beginning of 2002/03, Kenya seems to have accepted the revenue implications of its strained relations with external donors. The government has not included external

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

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Total Revenue and grants[b]	**30.2**	**25.9**	**24.2**	**26.8**	**22.6**	**25.5**
Tax revenue	25.1	21.7	20.2	20.6	19.2	21.1
Grants	1.3	0.7	0.6	3.0	0.6	1.2
Total expenditure and net lending[b]	**31.8**	**25.3**	**22.7**	**26.6**	**25.4**	**27.6**
Current expenditure	24.8	23.1	20.1	22.4	21.9	23.5
Excluding interest	*17.5*	*18.1*	*16.3*	*19.4*	*18.3*	*19.1*
Wages and salaries	5.3	4.3	4.6	4.5	4.0	4.2
Interest on public debt	7.3	5.0	3.8	3.0	3.6	4.4
Capital expenditure	6.6	1.7	2.4	3.8	3.5	4.0
Primary balance	**5.8**	**5.6**	**5.3**	**3.3**	**0.7**	**2.3**
Overall balance	**-1.6**	**0.6**	**1.5**	**0.3**	**-2.8**	**-2.1**

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

receipts in budget support from its development partners in the budget financing strategy.

Monetary policy in Kenya continues to emphasise the maintenance of stability of prices of domestic goods and services. Kenya has achieved considerable success in this direction. In 2001, the Central Bank of Kenya (CBK) maintained a tight monetary policy in 2001, the fifth consecutive year, aimed at keeping inflation within the 5 per cent target. During 2001, the minimum cash ratio was reviewed downward from 12 per cent to 10 per cent. Broad money (M3X) grew by 2.4 per cent in the year to December 2001 compared with 4.2 per cent the year before. The slow rate of growth of money supply was in line with the weak economic activity and was mainly the result of a 23.2 per cent decline in quasi money deposits, which more than offset an 8.9 per cent increase in currency plus deposits. On the other hand, the combination of 9.9 per cent increase in NFA, 19.8 per cent increase in domestic credit to central government and 6.5 per cent drop in credit to the private sector, accounted for 2.4 per cent growth in assets. These trends were in line with the monetary policy stance of the CBK of keeping money supply growth commensurate with that of the real sector.

The slow down in monetary expansion achieved the intended objective of containing aggregate demand and resulted in an average annual inflation rate of 0.8 per cent by December 2001 from 6.2 per cent in 2000. Other factors that contributed to the low inflation in 2001 included price falls of foodstuff as a result of the increased agricultural output, the relative stability of the shilling. According to the CBK, the rate of inflation has remained low into 2002 with the average rate at 2.4 per cent in May 2002. The rate of inflation is estimated at the annual average of 2 per cent for 2002. Inflation is however projected to pick up to 4.1 per cent in 2003, which will still be below the 5 per cent target of the CBK.

Nominal interest rates were generally lower in 2001 compared with the previous year in response to developments in the monetary sector. The treasury bill rate, which rose to 15 per cent at end-2000 came down to 10.9 per cent by end-2001 and has continued to fall — 8.3 per cent by May 2002. The decline reflects the increased availability of funds in the market as a result of the slow pace of economic recovery and, consequently, subdued demand for private sector credit. Given the low rate of inflation during 2001 all real interest rates remained positive in the course of the year.

On the foreign exchange market, the Kenyan shilling remained remarkably stable against all major currencies. Since June 2001, the Kenyan shilling has fluctuated no more than between KShs 77.50 and KShs 78.90 to the US dollar, although towards the end of 2001, the shilling came under some pressure due to deteriorating export conditions as well as the suspension of international assistance. The stability in the foreign exchange market was a reflection of the mix of monetary and fiscal policies, as well as weak demand for imports associated with the slow economic activity. Exchange-rate stability has helped to reduce perceived currency risk premiums and interest rates over the period. At the same time it points to the anaemic growth and the weak banking system.

External Position

Kenya has maintained a liberalised trade regime and made progress at further liberalisation. Kenya's trade policy has also increasingly become oriented towards the pursuit of regional integration, primarily through its membership of COMESA and the EAC. Tariff reform was formulated in 2001, aimed at simplifying the tariff structure and reducing the top tariff rate, with a view to ultimately adopting the common external tariff of COMESA and the EAC. The reform aims to reduce the top rate in stages over the next four years from 40 per cent (except for the tariff on sugar, which is 100 per cent) to 25 per cent. The number of non-zero tariff bands would also be reduced from 9 to 4 by 2004. In addition to paving the way toward the introduction of a common external tariff within COMESA and the EAC, the reforms aim to improve Kenya's competitiveness and facilitate duty collection. The 2001/02 Budget, which launched the first phase of the reforms, included a reduction in Kenya's top tariff rate from 40 per cent to 35 per cent, a decrease in the number of tariff bands from 9 to 8, and a decline of the average un-weighted tariff from 17.2 per cent to 16.6 per cent.

The external accounts position of Kenya worsened in 2001. Kenya's trade balance improved slightly from the deficit of 12 per cent of GDP in 2000 to 11.3 per cent of GDP in 2001. The narrowing of the trade deficit was due to a larger contraction of imports, as a proportion of GDP, with exports as a proportion of GDP also falling. Total exports receipts increased by 9.7 per cent in 2001 based on increases in export earnings from tobacco products, fish, hides and skins, soda ash, pyrethrum products, animals and vegetable oils, and iron and steel. However, the export trade was still dominated by tea, horticulture, petroleum products and coffee, which suffered declines in receipts. Export value of tea and horticulture dropped by 1.9 per cent and 6.5 per cent respectively in 2001. Tea exports were affected by the 11 September events as demand for Kenyan tea from Pakistan, Afghanistan and the Middle East dropped, especially in the last quarter of the year. Coffee exports dropped by 36.3 per cent in 2001 to continue the downward trend of the last five years. Coffee exports suffered from the low international price of the commodity as well as from administrative problems in the domestic coffee sector. Total imports recorded a 17.1 per cent increase in 2001. The import bill of crude oil decreased by 25.6 per cent due to the reduction of petroleum prices on the international market. Imports of agricultural machinery and tractors rose by 31.4 per cent, strengthening the base for economic recovery. Other notable increases in imports were recorded in chemicals, animal and vegetable fats and oils, medicinal and pharmaceutical products and iron and steel. In spite of the narrowing of the deficit on the trade account, the current account balance deteriorated to a deficit of 2.8 per cent of GDP from a deficit of 1.9 per cent of GDP in 2000. The deterioration was largely as a result of the decline in current transfers. However, Kenya's external reserves

Table 3 - Current Account (percentage of GDP)

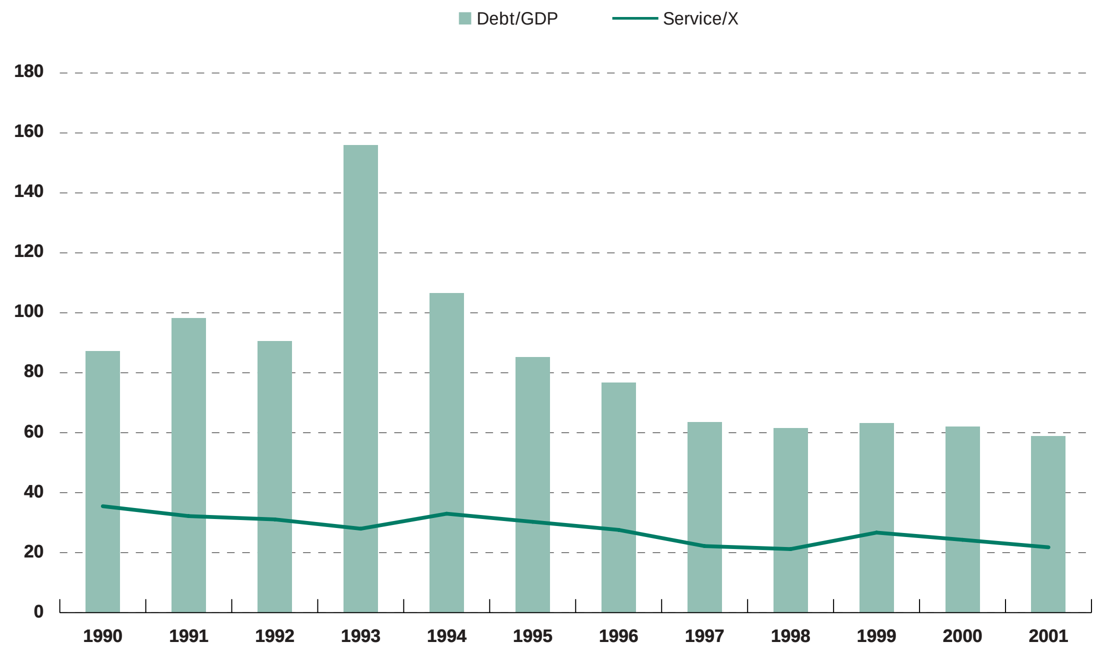
	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade Balance	-8.2	-9.2	-12.1	-11.3	-12.1	-13.1
Exports of goods (f.o.b)	21.3	16.6	17.1	16.6	16.6	16.5
Imports of goods (f.o.b)	-29.5	-25.9	-29.1	-27.9	-28.7	-29.6
Services	1.7	3.5	2.6	2.3		
Factor income	-3.5	-1.5	-1.3	-1.3		
Current transfers	4.4	6.4	8.8	7.5		
Current account balance	**-5.6**	**-0.8**	**-1.9**	**-2.8**		

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

position in 2001 improved to the equivalent of three months import cover as a result of reduced debt servicing following the rescheduling agreement with the Paris Club creditors. The outlook on the external position is a widening of the trade deficit as imports continue to rise amidst stagnation in exports. The trade deficit is estimated to rise to 12.1 per cent of GDP in 2002 and further to 13.1 per cent of GDP in 2003.

The total stock of Kenya's external debt continued its downward trend to $5. 257 billion at end-2001 from $5. 327 billion at end-2000 and $5. 586 billion at end-1999. The reduced debt stock was a reflection of lack of new lending to Kenya. The debt burden also subsided following the November 2000 Agreement with the Paris Club of creditors on a flow rescheduling on non-concessional terms. The Agreement covered principal and interest arrears on not previously rescheduled pre-cut-off- date debt as of 30 June 2000 ($24 million) and debt-service maturities falling due from July 1, 2000 to 30 June, 2001 ($276 million) on previously and not previously rescheduled pre-cut-off-date debt. Kenya is not eligible for debt relief under the Enhanced HIPC initiative. According to IMF estimations Kenya's external debt appears sustainable. This assessment is based on the NPV of debt-to-export ratio of about 143 per cent and a debt service ratio of 19 per cent.

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



Source: World Bank.

Structural Issues

Kenya's has continued in its long history of structural reforms to diversify the economy and attract investment. The country's current concerns with the structural transformation of the economy focuses on four areas:

— strengthening governance measures and public sector reforms;
— accelerating local government reforms;
— restructuring and privatisation of public enterprises; and
— focusing on sector priorities and strengthening supporting policies.

Since late 2000 when Kenya's PRGF-supported programme suffered major setbacks due to governance-related problems, the government has made major efforts to bring the programmes back on track by implementing a number of measures to improve governance in the country. In 2001, following the failure of Parliament to pass the legislation for the re-establishment of the independent Kenya Anti-Corruption Authority (KACA), the government has focused its Anti-Corruption and Economic Crimes Bill — originally intended to strengthen the KACA — to strengthen the Anti-Corruption Police Unit. The Anti-Corruption Police Unit is now operational with enhanced budget to build its capacity to fight corruption. Similarly, budget provisions have been made to help implement the Bills establishing Kenya Corruption Control Authority and the Public Code of Ethics, as well as to support the special anti-corruption courts in Nairobi and similar courts to be set up in other parts of the country. The government is pursuing reforms to change local authorities and the way they are managed. In addition, the government is preparing a decentralisation policy to define the powers, functions, roles and duties of local authorities and their relationship with the central government. In this regard, a draft Bill that defines the legal framework within which local authorities are to operate in future was circulated in January 2002.

Kenya has pursued a privatisation programme since 1991 with the objective of encouraging private sector development, improving economic efficiency of state-owned enterprises (SOEs), reducing the drain on government budget by loss-making SOEs, and raising revenue for the government. Out of the total 240 enterprises that were under the control of the government, 207 enterprises formed the core of the privatisation programme and were earmarked to be sold. By June 2002 the government had divested 174 enterprises mainly to local investors (97 per cent) and foreign investors (3 per cent), with the notable foreign acquisitions including Nestle Foods Ltd., Pollman Tours, Safari Ltd, and Stanbic Kenya Ltd. In spite of the significant local participation, privatisation in Kenya is accused by the private sector of increasing the concentration of wealth in the Asian minority of the country, with most Kenyans feeling left out of the process. This accusation derives from the government's main approach of offering 100 per cent shares to a single bidder through competitive bidding. There have only been a few cases, Uchumi Supermarkets Ltd. and Housing Finance of Kenya where employees were offered opportunities to buy shares. Other problems that have slowed the process including lack of transparency, low public confidence and lack of information on the programme stem from the lack of a privatisation law. Since the inception of the programme, the government has not passed a privatisation law through Parliament as a legal framework, arguing that there was no provision in the Constitution forbidding the government's sale of assets. Kenya's record with restructuring and privatisation of public enterprises has remained an issue of contention between the government and its major development partners. In 2001, the government promised to table a Privatisation Bill aimed at streamlining and accelerating the implementation of the programme. The draft Bill was only ready in mid-2002 after extensive consultations with a broad section of stakeholders. The privatisation of Telcom Kenya (TK), which first went out to tender in April 2000 was seen by the IMF as a test of Kenya's commitment to economic reforms. This privatisation fell through following the decision of the government to reject the sale on the grounds of low bids. At the start of 2002, the government re-affirmed its determination to privatise TK by exploring alternative private sector participation (PSP) strategies to achieve its objectives. In 2001, the government sold a 30 per cent shareholding in Mumias Sugar Company. The government also made progress with the preparatory process for the privatisation of Kenya Reinsurance Corporation to the final bidding stage. This transaction is expected to be completed in the 2002/03 financial year during which the government also expects to sell its remaining 35 per cent shareholding in Kenya Commercial Bank (KCB). The government has focused its attention in the 2002/03 financial year on inviting private sector participation in the provision of some infrastructure services. It will continue efforts to cede the operations of Kenya Railway Corporation, invite private sector participation in various services at the Port of Mombasa and initiate the implementation of a PSP option for the Nairobi water supply service.

Kenya's financial sector has remained relatively stable with the KCB continuously reviewing the legal and regulatory framework to improve surveillance supervision and regulation. In 2001, one bank was placed under the management of the central bank after it failed to meet its obligations at the Clearing House. Another bank under the central bank's management was placed under liquidation after efforts to revive it failed. In 2001, the KCB was given the added challenge of regulating the micro finance sector. Consequently, drafts of a Micro Finance Policy statement and Micro Finance Bill were completed. A major challenge that continues to face the financial sector is the problem of the huge Non-Performing Loans (NPL) that pose a threat to the survival of some local banks. In 2001, NPL accounted for about 38 per cent of total loans and the realisation of collateral against such NPL proved difficult because of a slump in the property market as well as a cumbersome court system. The government recognises the NPL problem as one of weak supervision and regulation of the financial sector. Consequently, in 2002/03 the KCB has been granted more powers and autonomy. The Bank has now been ceded the powers of the Minister with regard to the licensing and de-regulation of financial institutions. Also, the government in 2002 has proposed amendments to the Building Societies Act to allow for mergers between building societies and banks or non-financial institutions. Following the events of 11 September, the government set up in early 2002 a task force to prepare regulations and legislation on money laundering.

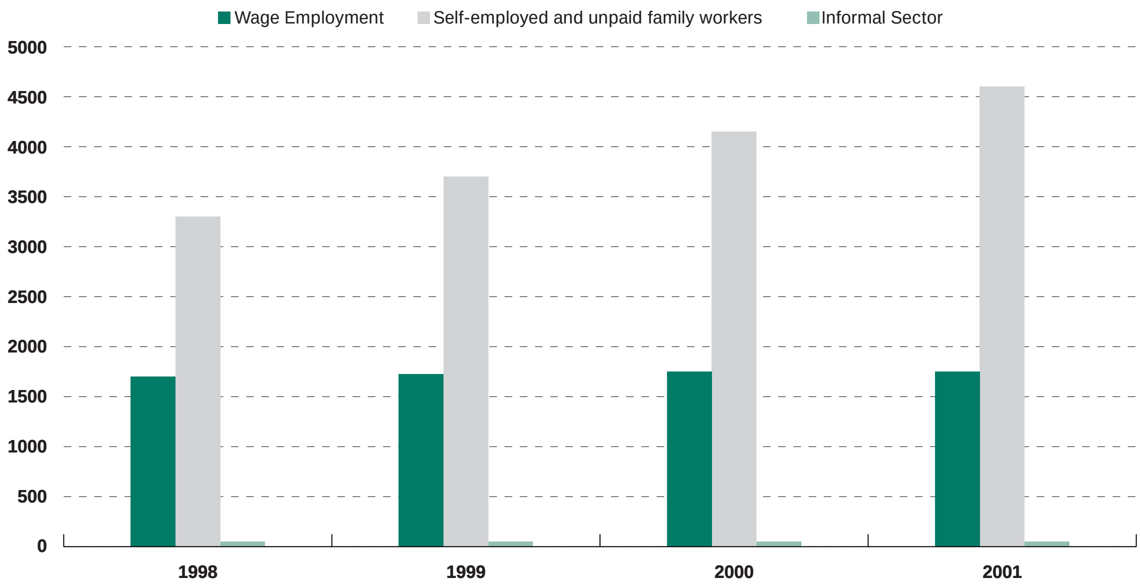
Activity at the Nairobi Stock Exchange (NSE) has continued to reflect the depressed state of the economy. The NSE 20 share index declined by 29.2 per cent between December 2000 and December 2001. The decline was due to reduced production capacity, lower corporate earnings including losses, reduced savings, and loss of investor confidence. In the equity market, the market capitalisation (total market value of all listed companies) dropped by 15.1 per cent between December 2000 and December 2001. The total number of shares traded dropped by 22.9 per cent. Under the foreign investor board (FIB) equities, the total FIB turnover dropped by 35.7 per cent between December 2000 and December 2001. The foreign investor participation in the market declined from a level of 36 per cent of the total market turnover in 1997 to a level of 12.5 per cent during 2001.

Political and Social Context

Kenya's democratic system has been under considerable stress as bitter struggles ensued for the succession to the Presidency after President Daniel arap Moi in elections in December 2002. The President re-affirmed his decision to step down in mid-2002, removing the uncertainty surrounding his retirement. However, the President Moi's backing for Uhuru Kenyatta, son of founding President Jomo Kenyatta, as his successor caused a major rift in the ruling party, with some ministers accusing President Moi of choosing a successor that he could manipulate outside office. Six ministers left the government on the issue of the successor to join the opposition, which for the first time forged a new coalition (the Rainbow Coalition) to put up the single candidate, Mr. Mwai Kibaki to contest the presidential elections. The Rainbow Coalition won a sweeping victory in the December 2002 elections from KANU that had ruled Kenya since independence, with Mr Kibaki easily defeating Mr Uhuru Kenyatta. The victory of the Rainbow Coalition marked a deepening in Kenya's democracy with the transfer of power to an opposition president.

Kenya's recent poor economic performance has aggravated unemployment and poverty in the country. Growth in wage employment has decelerated from 2.1 per cent in 1998 to 1.1 per cent in 2001. This represents the first downturn since the country's independence. There has also been a significant shift of the workforce to the informal sector, as a result of massive retrenchment in all activities in the modern sector. Employment in the public sector has also been on a downward trend due to the retrenchment of public servants and restrictive government employment policy. These factors have combined to lead to an increase in the percentage of Kenyans living below the poverty line from 52 per cent in 1997 to 56 per cent in 2002. In response to the worsening poverty situation in the country, and in line with its PRSP commitments, the government currently underpins the core poverty programmes and make enhanced budgetary allocations to the programmes. Since the beginning of 2002, the government has developed a Rural Development Strategy as part of its poverty alleviation programme. The main objective of the Strategy is to increase agricultural productivity, expand farm and non-farm incomes, reduce disease and ignorance and achieve sustainable resource management. In addition, food security is to be ensured by building and maintaining strategic grain reserves. The government is establishing a trust fund towards achieving these objectives.

Figure 6 - Total Recorded Employment, 1998-2001 (thousands)

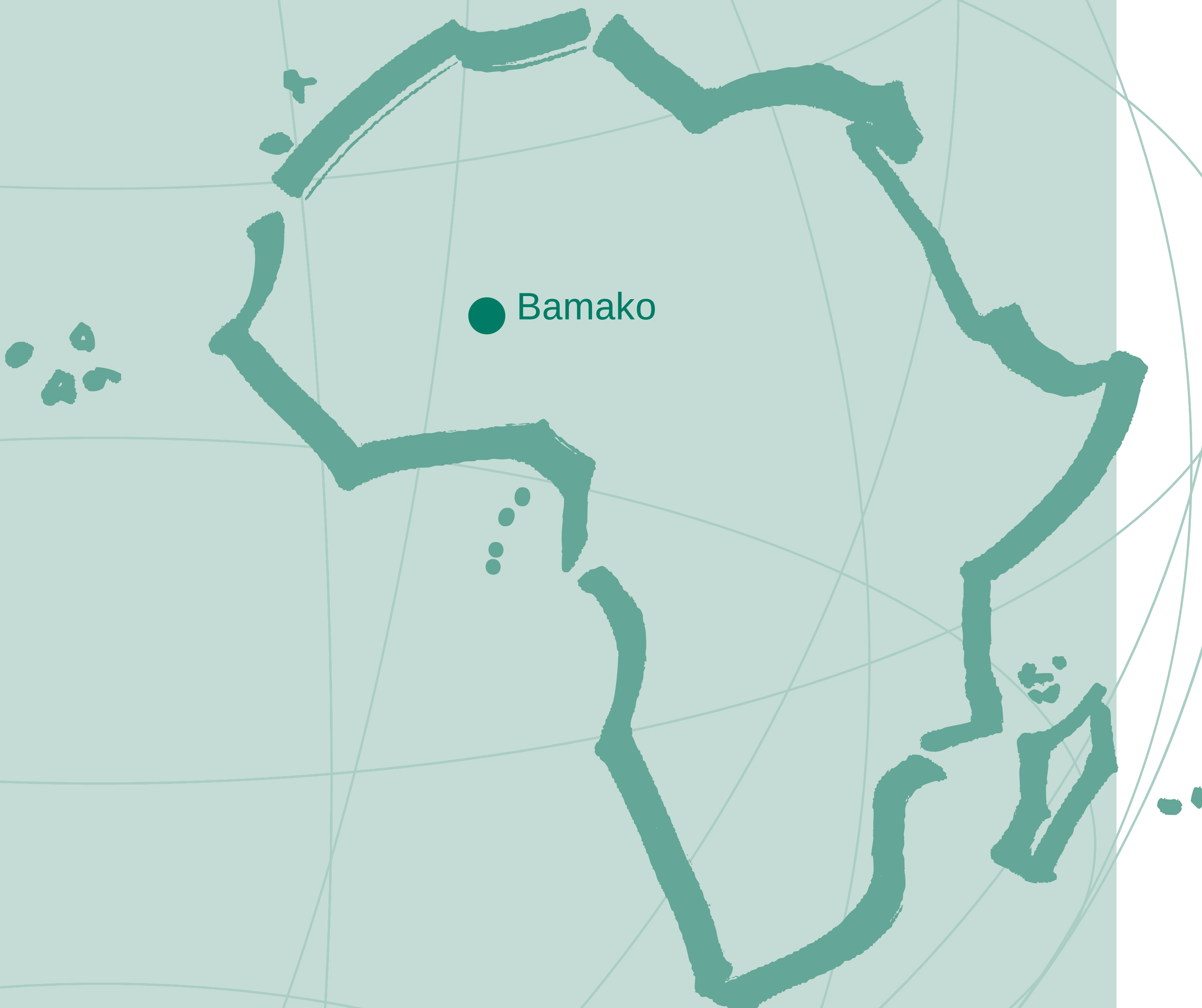


Source: Authors' estimates based on local authorities' data.

In the health sector, the government continues to place emphasis on the HIV/AIDS pandemic. The HIV prevalence is already showing some downward trend particularly in the urban areas. The estimated HIV prevalence rate has fallen from 18.1 per cent in 1998 to 17 per cent in 2001 in urban areas, while it has remained at 13 per cent in rural areas. Nationally, the HIV prevalence rate has dropped from 13.9 per cent in 1998 to 13 per cent in 2001. Kenya also achieved some increases in its health institutions and facilities between 2000 and 2001: the total number of health institutions increased by 1.5 per cent; hospital beds increased by 2 per cent; the number of hospitals and nursing homes increased by 4 per cent; and the number of registered medical personnel increased by 2.6 per cent, though due to many medical personnel leaving the country, the ratio of medical personnel per 100 000 population decreased from 190.1 to 188.2. In spite of the gains made, Kenya faces daunting health challenges, which require increased resource allocation; in 2001 the government's allocation of the equivalent of 1.7 per cent of GDP to the health sector was lower than the continental average of 2.5 per cent of GDP.

In the education sector, Kenya's immediate post independence gains continue to give the country strong educational indicators in Africa. The government also continues to devote about 6 per cent of GDP as its expenditure on education, which compares favourably with the average 4 per cent for Africa as a whole. Nonetheless, the underlying features of the education system, which include 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, persist. In 2001, the education sector recorded some gains in response to the increased public outlays. The areas that attracted increased funding include primary school feeding programme, the early childhood programme and curriculum support services. Pre-primary school enrolment increased by 6.1 per cent in relation to the previous year while primary school gross enrolment also rose by 4.2 per cent. However, the gross enrolment rate in primary schools, which stood at 92 per cent in 2001, was a decline from 94 per cent in 1999. The completion rate in primary education was estimated at 49 per cent in 2001, while the progression rate to secondary education was only 46.2 per cent, reflecting the high drop out rate.

Mali



key figures

• Land area, thousands of km²	1 240
• Population, thousands (2001)	11 677
• GDP per capita, $ (2001)	225
• Life expectancy (2000-2005)	52.1
• Illiteracy rate (2001)	56.9

Mali

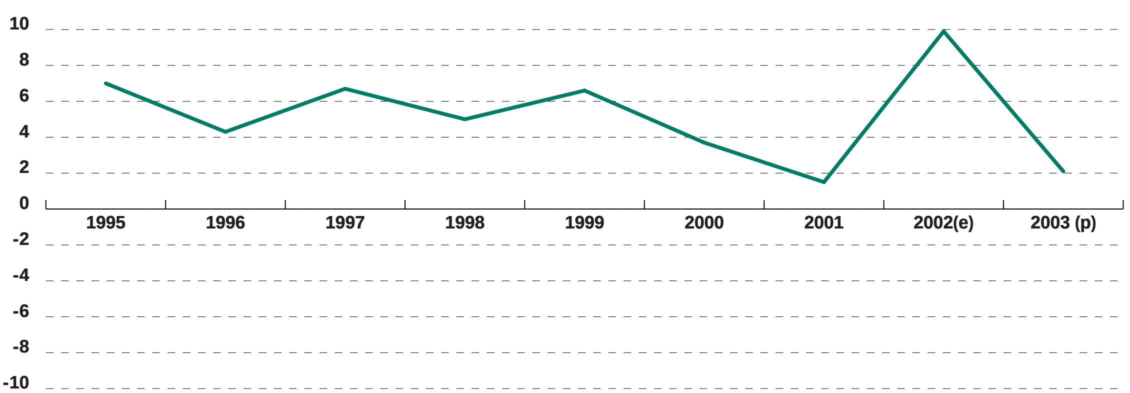
MALI'S GDP has grown about 6 per cent a year since the 1994 devaluation of the CFA franc. In 2001 however, the economy felt the effects of a disastrous harvest that reduced cotton production by half and cereals output by 20 per cent. These bad agricultural performances were partly made up for at macroeconomic level by the speedy opening of new gold mines, which ensured that growth in 2001 did not fall below 1.5 per cent.

After this difficult period, 2002 was a turning point for Mali when it hosted the Africa Nations Cup football tournament and held presidential and parliamentary elections that led to the first-ever peaceful handover of power by one group to another. The Africa Cup event greatly boosted economic development and saw improved infrastructure and much encouragement for the private sector. The smooth running of the tournament was praised by the countries that took part, but it left a deep hole in the budget and some projects were not completed.

2002 saw a turning point for Mali on the political front which will probably have a positive impact on the economy

Despite clear organisational problems, the 2002 elections went off peacefully and produced as new president the popular Gen. Amadou Toumani Toure, who seemed likely to unite the country. It was also a landmark for being the first victory by a non-party figure who said he wanted to rule by consensus. The vigour of the economy and recovery of the cotton sector gave Mali a high 9.9 per cent growth in 2002. But new disturbances in Côte d'Ivoire, a smaller cotton crop and an investment slowdown is expected to produce growth of only 2.1 per cent in 2003.

Figure 1 - GDP Growth



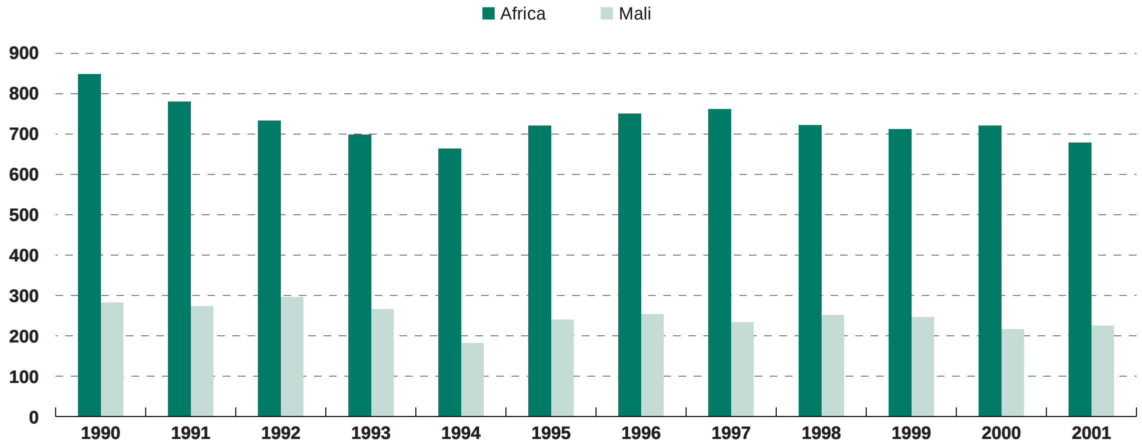
Source: Authors' estimates and predictions based on data from the *Direction nationale de la statistique et de l'informatique.*

Recent Economic Developments

Since devaluation in 1994, GDP has grown consistently faster than population though erratically, ranging from 3.2 per cent in 1996 to 6.8 per cent in 1997, and mainly because of the country's heavy dependence on primary sector performances.

The primary sector is dominant in Mali, accounting for 40 per cent of GDP in 2001. The country has made enormous progress in agriculture in the past decade, moving from being a net importer to a net exporter. But farming, which is at the mercy of very changeable weather, continues to strongly influence other sectors that depend mostly on agricultural raw materials.

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



Source: Authors' estimates based on IMF data.

The weather was particularly bad during the 2000/01 growing season and this reduced cereal production by about 20 per cent. Except for rice (up 2 per cent), output of all other grains fell sharply (as much as 65 per cent in the case of maize). This poor food-crop performance was accompanied by the collapse of cotton production, hit by steadily falling world prices since 1995 and major structural problems.

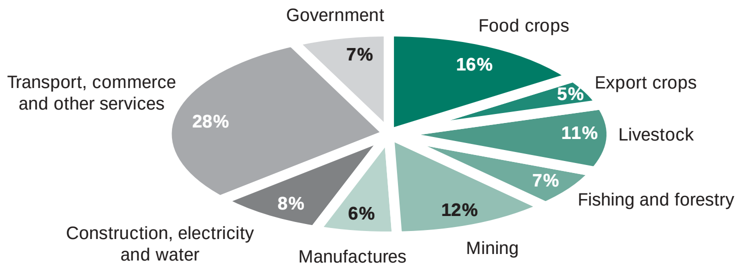
In 1999, the cotton sector had to cope with bad management by the national textile company CMDT, made worse by the discovery in 2000 of embezzlement from its accounts. The government's payment of a lower price to growers – 170 CFA francs/kg ($0.24) for the 2000/01 harvest – due to weaker world prices as well as the sector's problems, was a key factor in a strike by the farmers. This made the 2000/01 harvest a major disaster, amounting to only 250 000 tonnes, against 473 500 the previous year. The 2001/02 harvest (571 000 tonnes) was much better due to good rainfall and reasoned handling of the previous year's dispute [especially the government's decision to increase the price for growers to 200 CFA francs ($0.28)].

Prospects for 2002/03 are still uncertain because the rains were late in coming and the government cut the growers' price to 180 CFA francs. Fertilisers also arrived late by rail and farmers have been using some of it for their grain crops. The new flare-up of troubles in Côte d'Ivoire may delay things further by holding up delivery of pesticides. The prediction in September 2002 was for a harvest of about 485 000 tonnes, 85 000 less than the previous one.

However, cereal production rose in 2001/02 and at 2 865 000 tonnes almost returned to its 1999/2000 level. Rice, which remained the star of the sector with an increase of 13 per cent, is one of the alternative crops – along with sugar peas, potatoes and sesame – that the government is counting on for its policy of diversification, aimed at a big regional market and based on Mali's good stock of irrigable farmland.

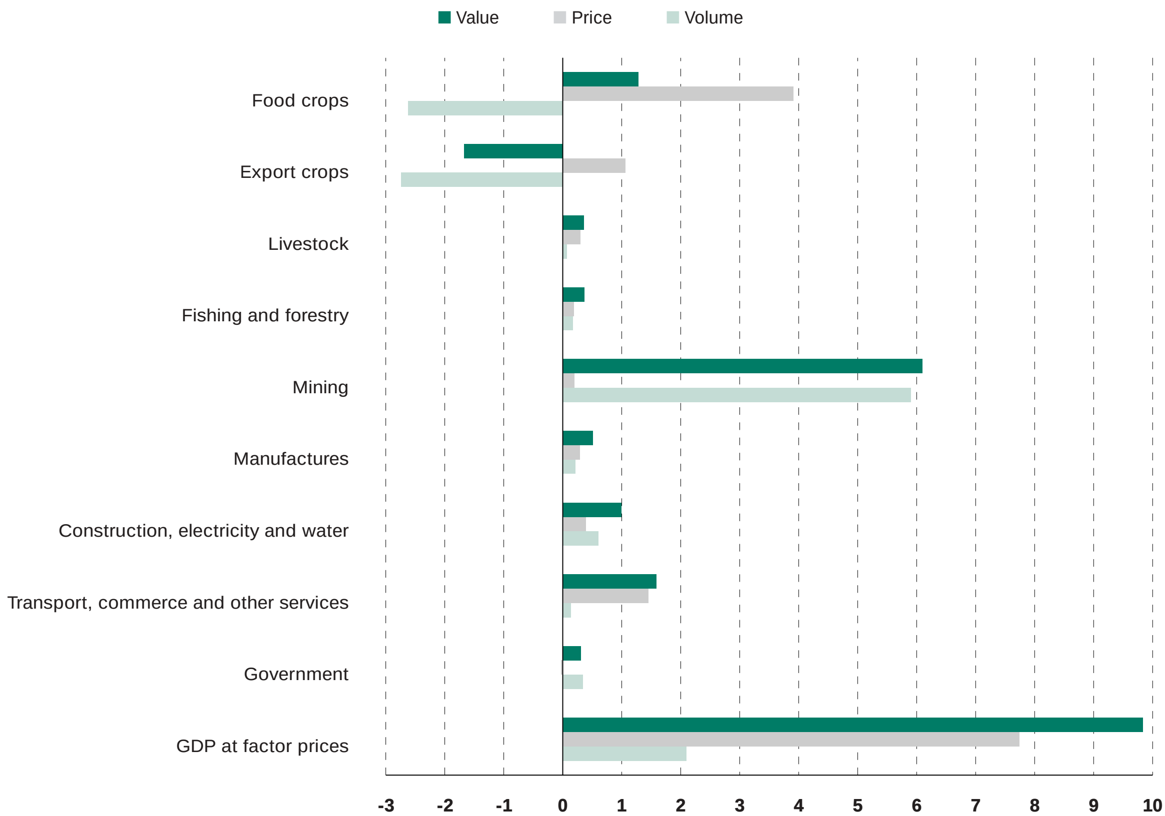
In contrast to the vagaries of farming, the gold sector has expanded rapidly since introduction of a mining law in 1991 (updated in 1999). After the Sadiola mine started up in 1997, gold became Mali's second biggest export and the country is now Africa's third largest producer, after South Africa and Ghana and ahead of Zimbabwe. Despite the steady fall in prices until 2001 and even though many countries stopped prospecting, Mali has opened up new deposits — at Morila in October 2000 and Yatela in May 2001. These new mines almost doubled national production in 2001, from 28.3 to 53.7 tonnes. Prospects for 2002 are even better because a predicted slowdown at some mines (notably Syama) has been offset by the unexpected discovery of a high-quality seam at Morila, where by the end of October, production had reached 31.7

Figure 3 - GDP by Sector in 2001



Source: Authors' estimates based on data from the *Direction nationale de la statistique et de l'informatique.*

Figure 4 - Contribution to GDP Growth in 2001

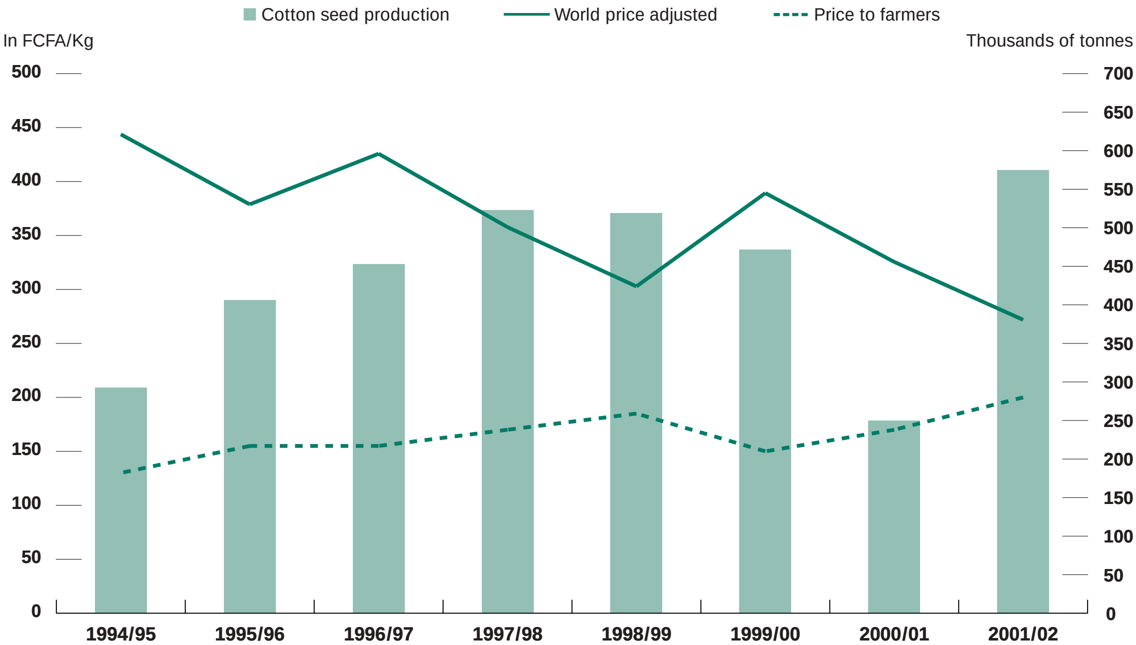


Note: Mali's national accounting includes the results of harvests in the following year's GDP, so this chart reflects the cotton sector's problems in 2000/01.
Source: Authors' estimates based on data from the *Direction nationale de la statistique et de l'informatique.*

tonnes, well above the 22.6 expected for 2002. At this rate, Morila may provide as much as 40 for the year, bringing national production to 67 tonnes instead of the projected 49.5. This growth is not likely to continue in 2003, but further new discoveries could throw off predictions.

The buoyancy of the sector is due to lower operational costs than in other countries, the promise of new discoveries, a mining law that welcomes investors and the efforts of the government, which led to the major discoveries at Sadiola and Morila. But the slight increase in the price of gold from September 2001 has

Figure 5 - Cotton Production and Prices in Mali



Note: Production and farmers' prices concern cotton seed on a crop period basis. The international price is for cotton fibre, so it has been converted into the equivalent of cotton seed at a conversion rate of 42 per cent. It is calculated on a calendar year basis (year n+1 for a crop in n/n+1).
Source: *Direction nationale de la statistique et de l'informatique* and World Bank.

Table 1 - Gold Production (tonnes)

Mines	1997	1998	1999	2000	2001	2002 (e)	2003 (p)	2004 (p)
Syama	4.1	4.8	6.1	5.7	2.1	0.0	0.0	0.0
Sadiola	12.3	16.3	17.6	16.8	20.8	17.0	14.7	16.6
Morila				4.2	23.4	40.0	23.7	18.8
Yatela					5.0	9.8	8.6	5.4
Kodieran								3.4[a]
Tabakoto							4.1	4.4[a]
Segala								4.0[a]
Kalana								2.0[a]
Loulo								3.6[a]
Total	**16.4**	**21.2**	**23.7**	**26.7**	**51.3**	**66.8**	**51.1**	**58.2[a]**

a. Tentatively, since opening mines in 2003 and 2004 depends to an extent on world prices.
Source: Ministry of Mines, Energy and Water and authors' estimates for 2002.

not been enough to bring some mines into production and operations at Syama were suspended. Only Tabakoto, of the three mines that were due to open in 2003, is expected to start up (in the second half of the year). The government is also trying to diversify mining and is looking at good prospects of iron and oil deposits. An oil law is being drafted.

The secondary and tertiary sectors did very well in 2001 and 2002 mainly because of Mali's hosting of the Africa Nations' Cup football tournament. The government took the occasion seriously and seized the opportunity to develop the country's infrastructure. Many roads were built or repaired in Bamako and several provincial towns, such as Kayes and Sikasso, got airstrips. The private sector also invested heavily in the event, mainly in hotels. This produced a volume growth in construction (9 per cent between 2000 and 2001) and commerce (8 per cent in 2002). Related sectors, such as electricity and telephones, also benefited.

Table 2 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**24.1**	**20.0**	**21.5**	**21.1**	**20.6**	**21.6**
Public	8.5	7.0	7.6	7.0	6.5	6.3
Private	15.6	12.8	13.9	14.1	14.1	15.3
Consumption	**95.4**	**90.0**	**89.3**	**83.4**	**84.0**	**86.1**
Public	17.2	13.9	12.8	12.0	12.3	12.4
Private	78.2	76.1	76.5	71.4	71.7	73.7
External sector	**-19.5**	**-10.1**	**-10.8**	**-4.5**	**-4.6**	**-7.7**
Exports	21.9	22.5	24.7	30.6	29.8	27.0
Imports	-41.4	-32.6	-35.5	-35.1	-34.4	-34.7

Source: Authors' estimates and predictions based on data from the *Direction nationale de la statistique et de l'informatique.*

The slowdown in activity linked with the cotton crisis sharply reduced household revenues in 2001, cutting back private consumption 1.6 per cent by volume. But the exceptional growth of the mining sector and the Africa Cup boosted investment in 2000 and 2001. In 2002, the situation is expected to reverse itself, with less investment in the wake of the Africa Cup but with private consumption rising because of higher peasant income from the good 2001/02 cotton and cereals harvests.

Macroeconomic Policy

Fiscal and Monetary Policy

After devaluation in 1994, the government made efforts to reduce macroeconomic imbalances. But worsening terms of trade from 1999 on, combined with the abolition of tariffs between all WAEMU/UEMOA member states on 1 January 2000 and their replacement by a common external tariff produced a significant drop in revenue.

Despite a difficult national and international economic situation, government tax revenues improved in 2001, rising from 13.4 to 14.6 per cent of GDP on the year, though this was well short of the 17 per cent UEMOA target. The better performance was due to strong growth of the mining sector, a rise in imports and the ending of oil price stabilisation in July 2001. Revenue was also boosted by better coordination between collection agencies after introduction of a single identification number for each taxpayer on 1 January 2001.

Table 3 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants [a]	**19.6**	**21.3**	**21.3**	**21.8**	**20.5**	**20.9**
Taxes	11.1	14.1	13.4	14.6	14.8	15.4
Grants	7.8	5.0	5.8	5.2	3.6	3.5
Total expenditure and net lending	**24.6**	**25.0**	**25.2**	**27.6**	**27.3**	**26.9**
Current expenditure	11.3	13.0	12.8	13.6	14.2	14.1
Excluding interest	*9.9*	*12.2*	*11.8*	*12.8*	*13.2*	*13.3*
Wages and salaries	4.0	3.9	4.2	4.2	4.2	4.3
Interest payments	1.5	0.8	0.9	0.8	1.0	0.8
Capital expenditure	13.2	12.0	12.5	14.1	13.2	12.7
Primary balance	**-3.5**	**-2.8**	**-3.0**	**-5.1**	**-5.9**	**-5.1**
Overall balance	**-5.0**	**-3.7**	**-3.9**	**-5.8**	**-6.9**	**-6.0**

a. Only major items are reported.
Source: Authors' estimates and predictions based on data from the IMF and the Ministry of Economy and Finance

Expenditure rose sharply, by 21 per cent over 2000, due to more transfers and subsidies as well as the cost of the elections. Subsidies went mainly to the electricity and cotton sectors. They included 10.6 billion CFA francs for linking the Malian grid to the Manantali Dam and to make up for the state energy company's revenue shortfall caused by the freezing of electricity and water prices until 2001. The 13 billion CFA francs that went to the cotton sector was to help the CMDT repay a debt of 30 billion CFA francs ($42 million) to the banks and to make up for higher prices paid to growers.

Election expenditure widely overshot the initial budget to reach 8 billion CFA francs in 2001 and an estimated 9 billion in 2002. This was mainly because of an unexpectedly large number of candidates and the government's concern not to obstruct the democratic process for lack of funds.

The hosting of the Africa Nations Cup is still costing a lot. The government is spreading expenditure over six years at 10 billion CFA francs a year. Reimbursement is expected to last until 2007 without including the cost of maintaining the infrastructure built. Some projects were funded outside the budget and these take total public spending linked to the event to about 120 billion CFA francs. An audit of the accounts is planned. The chief concern of the funding agencies is that some projects that began late were not completed and may now never be.

The 2001 public accounts were not as healthy as the previous year and the government had to use advances available from the UEMOA for the first time since 1995 (and the last time, since such advances were abolished in 2002), to the tune of 27.5 billion CFA francs. This operation was not just because of the much higher spending in 2001 but also due to disbursement delays by some funding agencies.

The strong overall recovery in 2002 following good harvests and growth of the mining and construction sectors should once more see much higher tax revenue in 2002 and 2003. The full effect of the reform and (in December 2001) increase of taxes on oil products should show up in 2002, pushing the overall tax rate up about one percentage point to 14.8 per cent in 2002 and then to 15.4 per cent in 2003. Current expenditure should also increase significantly due to public sector reforms (including an adjusted pay scale), the cost of the elections and more funds earmarked for the decentralisation programme.

Like other UEMOA countries, Mali's currency is pegged to the euro and its monetary policy is conducted by the BCEAO, leaving fiscal policy as the government's main economic instrument. From 1996 to 2000, inflation was under control at less than 3 per cent. However, in 2001, the adjusted consumer price index rose 5.2 per cent, well above the UEMOA's convergence limit of 3 per cent. This was partly because credits to the economy rose significantly in 2001 due to the revival in commerce, construction and transport set off by the Africa Cup. Money in circulation increased, the price of cereals rose by about 14 per cent on the year and water and electricity prices went up by 5 per cent. To keep this under control, the BCEAO raised the level of required minimum reserves to 9 per cent for Mali (rates vary from country to country in the BCEAO area).

However, despite the better 2001 cereals harvest, inflation remained high in the first half of 2002. It is possible that the farmers, after getting better prices for cotton (40 per cent of cereals are grown in the cotton areas), had no immediate need of cash and so withheld their stocks, giving the false impression of a shortage. The renewed fighting in Côte d'Ivoire in September 2002 also helped push up inflation. With all trade between the two countries at a standstill, the price of food and construction materials rose quickly and inflation could reach 3.9 per cent for the year. In 2003, if relations with Côte d'Ivoire improve or trade is redirected towards Togo, Ghana or Senegal, it could fall slightly to 3.6 per cent.

External Position

Mali's trade structure is quite open and comprises three items (in order of importance, gold, cotton and livestock) which in 2001 accounted for more than 90 per cent of all exports. This means terms of trade largely dictate how well off the country is. Mali is also influenced by its two neighbours, Côte d'Ivoire and Senegal, with which it has substantial trade (Côte d'Ivoire supplied more than 18 per cent of Mali's imports in 2000). The renewed disturbances in Côte d'Ivoire have caused big supply problems for Mali, along with the major risk of a refugee influx. They have also pushed down the price of commodity exports to Côte d'Ivoire such as livestock.

Mali has a perennially negative trade balance because it exports so little. As a result of the cotton farmers' boycott in 2001, revenue from cotton exports dropped by a quarter. But this was easily offset by an 86.8 per cent rise in earnings from gold (from 189.4 billion CFA francs in 2000 to 353.8 billion in 2001), thus reducing the trade deficit. At the same time, imports rose by 26.4 per cent due to investment in mining and for the Africa Cup.

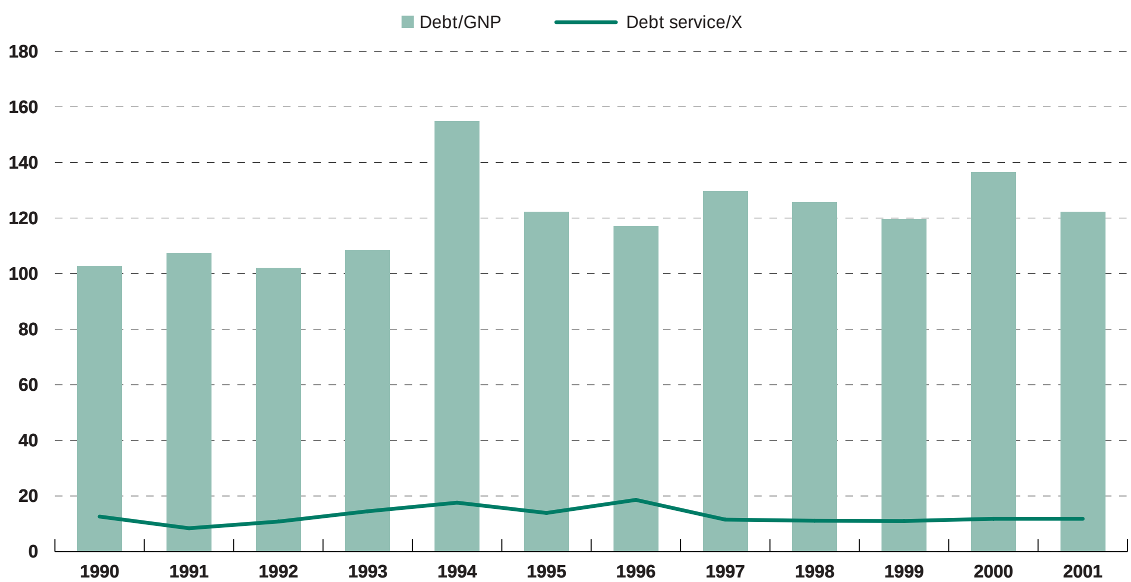
The steady decline of world cotton prices means that the total value of exports should not rise much in 2002 despite the return to normal in the cotton-growing regions and the strength of the mining sector. A 138 per cent volume rise in cotton exports is predicted but sales are lagging behind projections, with mills preferring to break contracts signed at the start of the season and pay penalties so they can buy again at a lower price. Imports have not been slowing down much,

Table 4 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade balance	-4.4	-1.3	-1.9	-0.1	0.1	-2.7
Exports of goods	18.6	21.0	22.3	27.5	27.1	24.6
Imports of goods	-22.9	-22.3	-24.2	-27.7	-27.0	-27.3
Services balance	-16.0	-9.7	-9.6	-10.8		
Factor income	-2.1	-2.6	-4.0	-5.2		
Current transfers	13.4	4.2	5.2	4.4		
Current account balance	**-9.2**	**-9.3**	**-10.4**	**-11.8**		

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

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



Source: World Bank.

despite the end of the Africa Cup, because of the continuing vigour in mining and construction. The trade balance could worsen again in 2003 with a smaller cotton crop and the new troubles in Côte d'Ivoire seriously hampering trade and depressing the price of commodity exports to the region. But the unpredictability of gold discoveries makes it hard to forecast the level of exports.

Mali depends largely on international grants and loans to finance its deficits. The country's external debt is one of the largest in Africa and reached 122 per cent of GDP in 2001. But because more than 80 per cent of it is soft loans, the NPV is barely half the nominal value and the cost of servicing it is quite small (only about 12 per cent of exports in 2001). Debt to the private sector has been zero since 1996 and international financial institutions have accounted for more and more of the total external debt since the early 1980s, accounting for more than 70 per cent of it in 2001.

The country was declared eligible for the HIPC Initiative in September 1998. In September 2000, it reached completion point and $128 million (NPV) became available. The country qualified for another $401 million under the Enhanced HIPC (EHIPC) Initiative on condition it made efforts to improve education and health care and produced a final draft of a poverty reduction strategy paper (PRSP). This draft was approved by the government on 29 March 2002 and examined by the World Bank and the IMF in October that year. Completion point for the EHIPC Initiative should be reached at the end of 2002 or early 2003. 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 run into its biggest problems with structural reforms, mainly because of the difficult reform of the cotton sector.

Privatisation has steadily advanced in Mali since 1994, when the rules for privatisation were put in place, and between 1978 and 1999 about 60 firms were privatised or closed down. But because of poor legal work, the first sell-offs were not very successful, arousing public anger and making it harder to reform several large state firms still to be privatised. A second series of privatisations was launched in 1999, mostly of firms (except banks) that were key to the country's economic structure, such as CMDT, the Niger River Authority, Malian Railways, the Airports Authority (ADM), Mali Energy (EDM), and the telecommunications company, *Sotelma*.

The government chose to liberalise the telecommunications sector before privatising *Sotelma*. A second operating licence, for fixed, mobile and international phone lines, was awarded to France Telecom in August 2002, with operations expected to begin at the end of December. The authorities are busy with the restructuring needed for disposal of *Sotelma*, (including an audit of the accounts and the investments made for the Africa Nations Cup).

The privatisation of EDM was completed on 11 August 2000, with Saur and IPS taking up 60 per cent of the capital, the government keeping 20 per cent and private firms in the sub-region taking the remaining 20 per cent. The sale, which came into effect in December 2000, involved privatising production facilities and franchising the water supply system. The energy sector was partly liberalised by a decree of 15 March 2000 ending the state monopoly and allowing local firms to operate in the Sikasso and Kayes regions.

The sale of ADM and the pharmaceutical firm UMPP, as well as the transfer of the Bamako-Dakar railway line to a mainly private firm (SETI), each set for the end of 2000, has not yet been completed. The government opted for franchising the ADM, with bids to be invited by December 2002 if an inventory had been done by then. The difficulty of making an inventory of property titles and guaranteeing land deeds are major obstacles to privatisation generally because they make it hard to calculate the state's assets. The government is looking for a temporary Malian administrator for the UMPP so it can call for tenders by the end of 2002. But an evaluation of the firm had still not been done by September that year, so the December target date was certain to be missed. Bids were invited for the railway company in April 2001 and by April 2002, two technical tenders had been received. The authorities are said to be having talks with the Bolloré/SNCF International consortium and with Bolloré, which has reportedly made the more interesting technical and financial proposals.

The most important structural issue is reform of the cotton sector. After the national conference on cotton in April 2001, the government made a policy statement on developing the sector that included all the proposals made by those involved in cotton as well as general policy lines, aimed at opening up the entire sector to competition by 2005. It set a timetable for reform with three goals: gradual withdrawal of the CMDT from public service activity and supplying intrants and transport (involving a loss of 500-600 jobs), greater involvement of farmers in running the industry and gradual liberalisation of the sector. A system to fix prices to growers in relation to world prices has already been introduced. The Upper Niger Valley Authority (OHVN) will be the first body to be privatised in the sector.

However, the action plan has been held back by delays in disbursement of funds. As a result, at the end of December 2001, two of the IMF programme's structural criteria that directly affected the cotton sector had not been met – completion of the financial reform plan at the CMDT and a call for bids for the OHVN privatisation. The CMDT's financial restructuring plan should have been drafted by the end of first quarter 2003 and bids to set up the autonomous company in the OHVN region were called for at the end of September 2002 for privatisation in early 2003.

Reform in the cotton sector has been delayed by the very large part the CMDT plays in Mali's economy and society. Several groups in the sector regret that the CMDT is pulling out of public service activities and that no other bodies, state or private, appear able to take over. The outsourcing of transport may take some time because of the small number of private Malian operators and the bad state of the roads (bids were invited however at the end of September 2002). Withdrawal from the intrants business, especially where cereals farming is concerned, will be just as difficult, as suppliers want to tie their loans to growers to production at set prices. The structure of the industry, especially the 40 per cent share in it held by a French company (Dagris, formerly CFDT), has made decision making difficult because of disagreement about who is responsible for losses and about procedure for disposal of assets.

In the long term, the future of cotton in Mali lies in the successful transfer of the state's skills and responsibilities to the private sector, as well as on the ability of those in the industry to reduce the impact of world prices through boosting yields and adding value (with semi-processed products, for example). Mali's ability to profit from the African Growth and Opportunity Act (AGOA) will be key. A committee was recently set up to do this by grouping thousands of small textile firms (whose output is negligible since only 1 per cent of cotton produced is processed) and giving them a chance to set up an organised processing sector. Mauritian businessmen, working with Côte d'Ivoire, France and Mali, have also built a mill which should start up in January 2003.

Mali's banking system has greatly improved since 1995, but the financial problems of the CMDT have fed the sector's structural deficiencies because of the risk of default by borrowers in the cotton industry. The significant improvement in banking between 2000 and 2001, symbolised by the drop in non-performing loans from 12.1 to 9.9 per cent, was mainly due to the government's repayment of 30 billion CFA francs worth of loans the banks had made to the CMDT.

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 reform plan for the financial sector in June 2000 with five goals: restructuring the banking sector by privatising four state-funded banks, strengthening non-bank financial institutions through training and doing audits of insurance companies, boosting micro-credit organisations, reviewing the legal and regulatory structure to eliminate institutional snags to developing the sector and strengthening the monitoring capacity of the economy and finance ministry. Despite getting off to a slow start, the programme is now under way, notably the privatisation, and should last until July 2006.

Mali is firmly landlocked and has very poor infrastructure, aggravated by the size of the country, its sparse population and big regional variations in demographic distribution. The 1998 census found that three-quarters of the country was occupied by only 10 per cent of the population. However, building road links to other West African capitals (Dakar and Conakry) has been speeded up by the new troubles in Côte d'Ivoire, which have spurred the government to diversify its supply routes and reduce dependence on its neighbour, especially for oil. The Dakar-Bamako railway line is in a very bad state. However the collapse of Air Afrique has given a boost to Air Mali.

Much progress has been made in the energy sector recently with the start-up of the Manantali dam at the end of January 2002, with full operation expected by September 2002, though saturation will not be reached until 2005. The government wants to expand hydro-electric energy by building other dams and linking up with the Ivorian network (though surveys for this have barely started). EDM has pledged to extend the electricity grid to 60 new towns by the end of its franchise in 2022. Energy supply has improved greatly overall, but users complain about EDM's pricing policy. Despite switching to the cheaper hydro-electricity, EDM increased its rates twice (by 5 per cent in July 2001 and 4.57 per cent in January 2002) before reducing them very slightly in September 2002.

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 rather turbulent, with opposition boycotts and accusations of embezzlement. Presidential elections in 2002 were therefore a test of whether democracy had taken root sufficiently to allow the first-ever democratic handover of power to another group, at the end of Konare's maximum two terms of office. The elections, hailed internationally as peaceful, brought to power a man who was both the country's most popular politician and the one most likely to unite it – Gen. Amadou Toumani Toure, who years earlier overthrew the dictator Moussa Traore.

It was a turning-point in the country's history as the first victory by a non-party figure who said he wanted to rule by consensus. The first display of this policy was the virtually-unanimous election in September 2001 of former prime minister Ibrahim Boubacar Keita as president of parliament. The new head of state stressed continuity by saying his government would respect the main domestic and foreign policies set by the previous one. This peaceful transition is striking in a country where political change has hitherto been abrupt. Despite such positive aspects, which have been trumpeted at home and abroad, the elections themselves were marred by poor organisation and a low turnout.

Despite the instability of several neighbouring countries, Mali has recently shown great openness to the outside – it hosted the Africa Nations Cup and President Konare was president of the UEMOA. The war with the Tuaregs, which officially ended in 1996, has severely strained relations with Mauritania, which Mali accused of helping the rebels. Mali also has frontiers with Algeria and Guinea, which is directly affected by the fighting in Sierra Leone and Liberia. More recently, the political instability in Côte d'Ivoire has seriously affected its diplomatic relations with Mali.

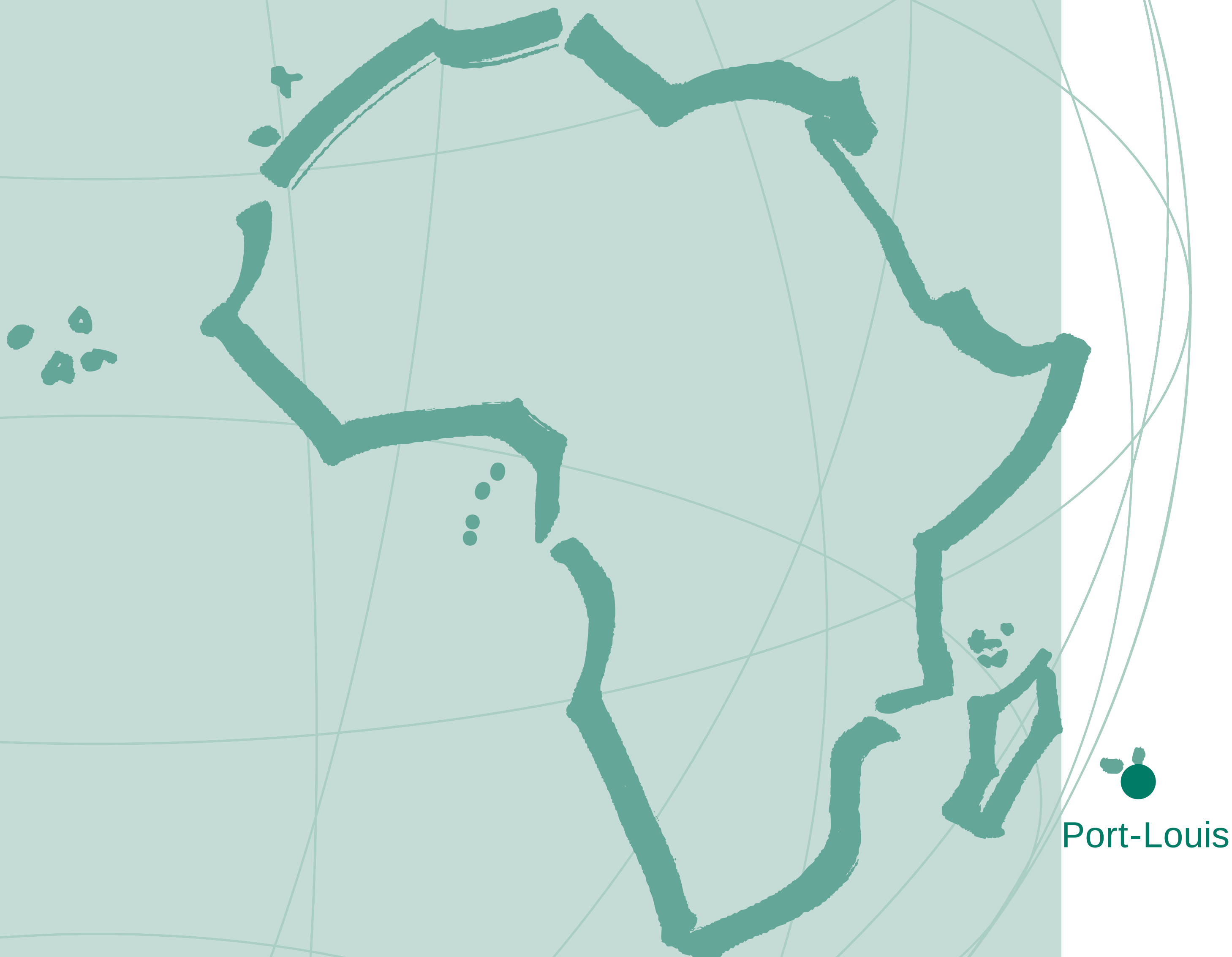
The sustained growth that followed the 1994 devaluation has managed to slow the worsening poverty. But Mali is still one of the world's poorest countries and one of the most impoverished in French-speaking Africa. In 1999, monetary poverty, defined as below an annual per capita income of 97,843 CFA francs, affected 64.2 per cent of the population. Nearly 90 per cent of the poor live in the countryside, where repeated drought causes frequent food shortages.

Because of the country's small capacity for absorbing aid, money alone is no guarantee that aid projects will be completed or poverty reduced. The HIPC Initiative is clearly a step forward. Of 23.1 billion CFA francs freed up under this scheme in 2001, 16.8 billion were committed in the first year for anti-poverty projects. The success is due to the authorities and development partners getting a single frame of reference, clearly spelling out development priorities. Three broad priorities have been established – institutional development (reforming the civil service and the judiciary and the fight against corruption), human development (boosting access to basic social services) and improving infrastructure (to help the cotton, rice, livestock and gold sectors). The country's ability to absorb aid is also helped by the fact that the anti-poverty measures emphasise participation.

Mali's health indicators are very poor, especially concerning mothers and children. As a result, despite the very high fertility rate, population growth is under control. High infant mortality (120.5 per thousand) 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 that was 11.7 million in 2001. Surveys in 1996 and 2001 suggested health conditions had worsened, despite the launching in 1998 of a 10-year health and social development plan. This is because the plan does not reach country areas despite being well-organised in Bamako.

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 illiteracy rate to 57 per cent in 2001. The many interrupted academic years in recent times have also damaged secondary and university education and had a disastrous impact on the country's pool of qualified people. Between 1992 and 2000, the government made great efforts to improve educational facilities, notably by building more classrooms, and gross primary enrolment rose from 50 per cent in 1997/98 to 62.8 per cent in 2000/01. But quality remains low because teachers are few and poorly-trained.

Mauritius



key figures

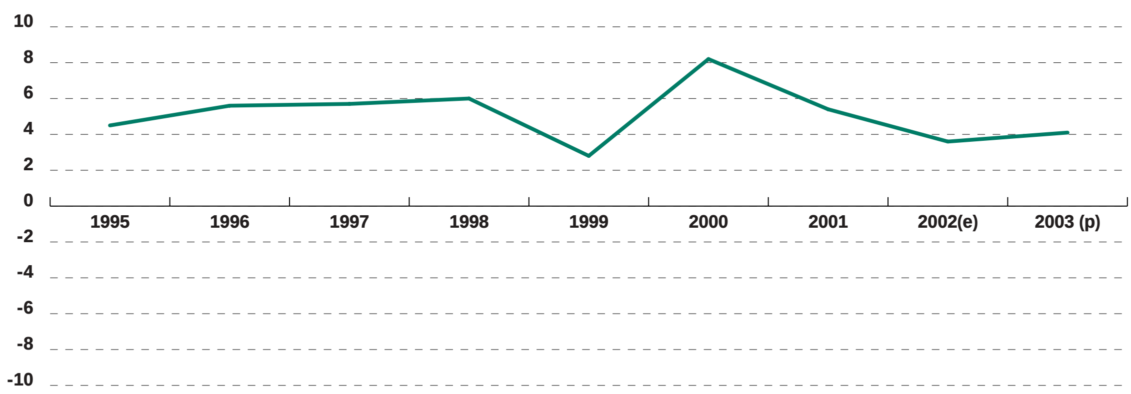
• Land area, thousands of km²	2
• Population, thousands (2001)	1 171
• GDP per capita, $ (2001)	3 866
• Life expectancy (2000-2005)	72.0
• Illiteracy rate (2001)	15.0

Mauritius

MAURITIUS CAN BE CONSIDERED one of the most successful stories in the context of the African continent. However, despite its remarkable performance, the country is facing severe economic challenges as the bases of its development are rapidly changing. Increasing labour costs in recent years have eroded the competitiveness of the textile industry, and preferential market access, which was critical for the development of the sugar sector and garment industry, will phase out over the next few years. The country operators - the public as well as the private sector - are aware of these structural changes and are showing a great deal of adaptability and creativity in facing the new challenges. Consequently, despite going through a difficult transition period, Mauritius is displaying relatively good economic performance. After the severe drought which had a major impact on the sugar sector in 1999, the economy rebounded and grew by 8.9 per cent in 2000 and 5.8 per cent in 2001. In 2002, however, the growth rate was lowered to an estimated 3.6 per cent due to the negative impact of cyclone Dina on sugar output, the aftermath of 11 September and the political crisis in Madagascar. In the medium term, the economic recovery will depend on the credibility of the structural changes undertaken by the country and the subsequent renewed confidence of private investors.

Labour costs have eroded the competitiveness of the textile industry in recent years, but Mauritius is adapting to new challenges

Figure 1 - Real GDP Growth



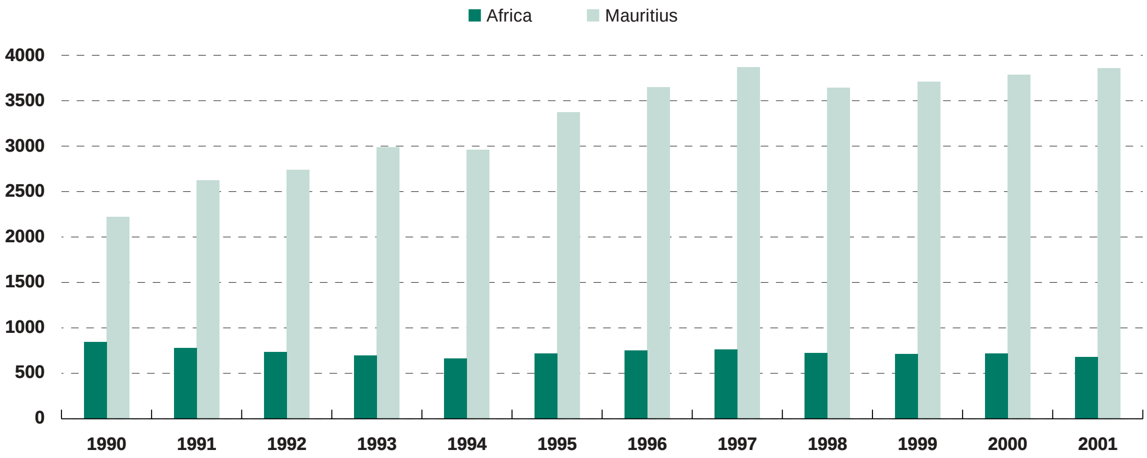
Source: Authors' estimates and prospects based on Central Statistical Office data.

Recent Economic Developments

In the last six years (1996-2001), Mauritius has grown on average by 6 per cent, relying on several growth engines: export processing zone (EPZ), the sugar sector, tourism and the emerging financial services sector. In 2001, all sectors contributed positively to growth. However, despite a growth rate of 5.8 per cent, Mauritius suffered in 2001 from adverse external conditions – related to a significant slowdown in Europe and the US – as well as from the difficult transition of the economy due to changing comparative advantages.

The sugar sector – which consists of sugarcane production and the sugar industry – has largely rebounded in 2000 following the 1999 drought, one of the severest the country has known. In 2001, the production of sugarcane increased by 13.4 per cent (from 5 109 521 tonnes in 2000 to 5 792 326 in 2001) thanks to favourable weather conditions (which resulted in an improvement of 13 per cent in the yield per

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



Source: Authors' estimates based on IMF.

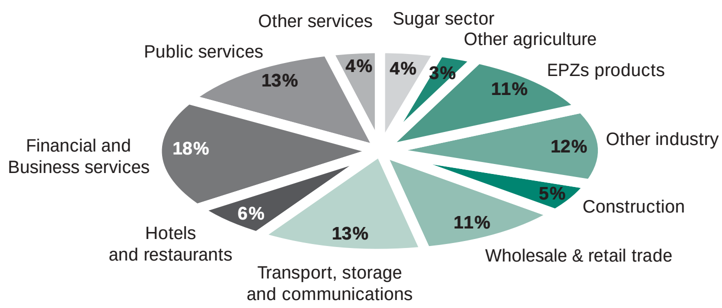
hectare). Meanwhile, sugar milling increased from 569 289 to 645 598 tonnes. In January 2002, the sugar crop suffered from cyclone Dina, which led to a 2002 level of sugar production and milling 13 per cent lower than in 2001. Over the longer term, the milling target is set at 620 000 tonnes so as to be in line with the phasing out of the preferential trade agreements and to satisfy a better allocation of land resources.

In view of meeting the challenges of increasing competition, which Mauritius is expected to experience over the coming years, the sugar sector is undertaking a series of reforms[1] in order to reduce production costs (from 18 cents / lb to 12 cents by 2008). Concerning the labour force, a programme is currently being implemented with the aim of reducing the manpower by one third. A voluntary retirement scheme is currently in place (and will end in 2003) allowing female agricultural workers above 50 and males above 55 to withdraw from the activity with cash and land compensation. By mid-2002, the target had almost been met – as 7 000 out of the envisaged 8 000 workers had already agreed to the scheme - albeit at a very high cost (estimated at 3 billion rupees). The second aspect of the reform involves a higher concentration in the milling sub-sector, the number of sugar factories being reduced from 14 to 8 by 2008. So far this has been successfully implemented throughout the country except for the South where the sugar industry is more fragmented. Thirdly, mechanisation and irrigation have become the priorities with a land target of 60 000 ha over 77 000 to be mechanised and 32 000 to be irrigated by 2010. This should be boosted by the operationalisation of the Midlands Dam in September 2002. The reform programme also includes more intensive use of electricity produced from the bagasse as well as an amendment to the Labour Act, which will bring more flexibility to employment policy.

The consolidated penetration into the European and US markets of the garment industry - which represents around 80 per cent of the EPZ activity - has recently enabled the sector to expand at a sustained level. Accounting for 12 per cent of GDP and bringing in almost three-quarters of export earnings, the EPZ industry has grown around 6 per cent up until 2000. In 2001, however, the EPZ industry grew only by 4 per cent, due to a 14.5 per cent drop in the US market following the 11 September shock. This occurred despite a strong growth rate attaining 11 per cent during the first nine months of 2001. Beyond the short-term effect of 11 September, the changing economic environment could jeopardise the near future of the industry. Already, the increasing world-wide competition associated with the political crisis in Madagascar, which began in December 2001 with the

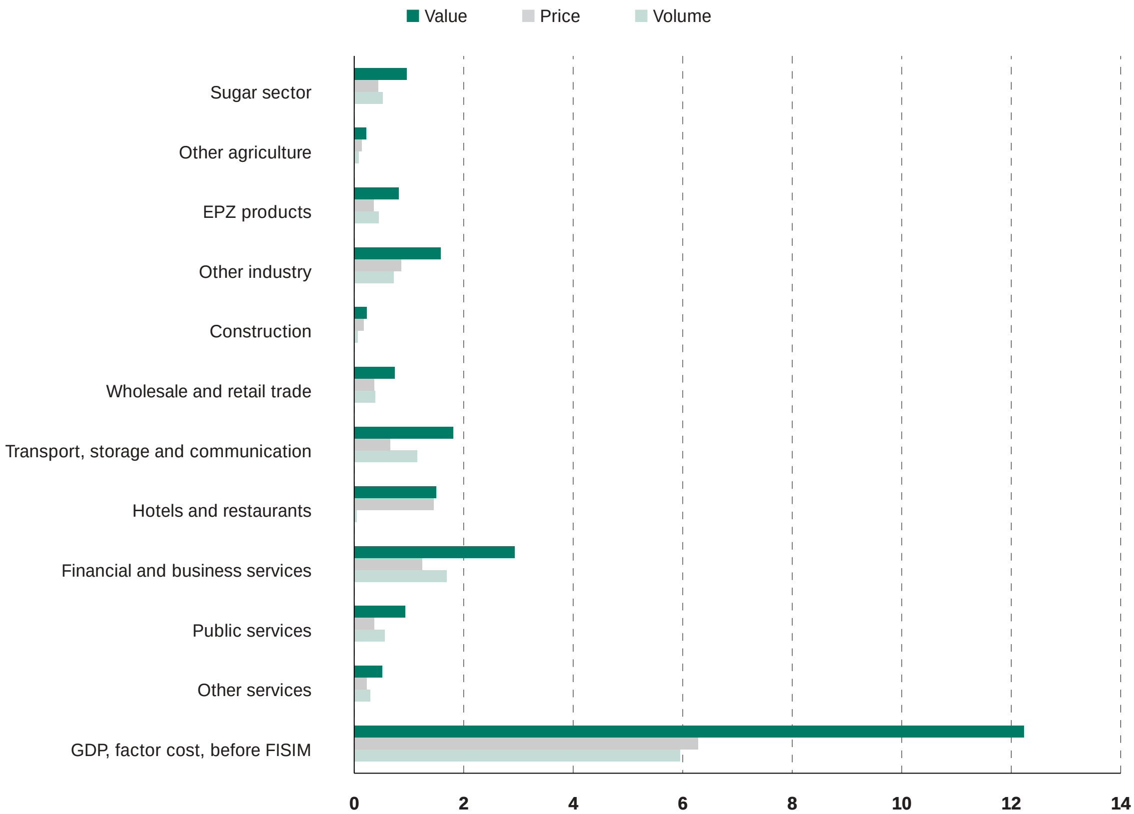
1. Developed in the Sugar Sector Strategic Plan 2001-2005, issued in June 2001.

Figure 3 - GDP by Sector in 2001 (at factor cost before FISIM)



Source: : Authors' estimates based on Central Statistical Office data.

Figure 4 - Sectoral Contribution to GDP Growth in 2001



Source: Authors' estimates based on Central Statistical Office data.

presidential elections, has led several big textile companies to close down, generating 742 job losses in the first quarter of 2002. Many Mauritian textile companies have established branches in the Malagasy EPZ in order to reduce their costs through outsourcing parts of their production there. As a consequence, the future of the Mauritian textile industry will depend in part on the political normalisation process in Madagascar.

The end of the quota and duty-free access to the European market due to start by December 2004 coupled with the increasing labour costs, which have occurred in the EPZ in the last decade, as well as security issues in Madagascar, require a drastic change within the EPZ industry. The strategy adopted by the sector is threefold. First, the objective is to develop both quality and transformation within the textile industry so as to take advantage of the comparative advantages of Mauritius in terms of service (respect of timing), location (between the producers of raw cotton and end users) and to comply with the rule of origin requirement of the AGOA (African Growth and Opportunity Act) initiative. Several spinning projects are already under way, among which is the Tianli Spinning Mill financed by Chinese investors. The second objective is to develop product and market diversification drawing on the duty-free access that AGOA is granting for some 1 800 products (other than textile). The operators are experimenting in several sub-sectors more or less successfully. Electronics has been largely disappointing owing to high competition from Asian markets. The shoe industry is limited by problems of quality but could be developed to fulfil regional demand. Some better prospects are expected from jewellery, clock industry and printing work that could be exported to the EU and the US. The medical products market is also currently being investigated with Mauritius hoping to extend the Doha agreement on generics at regional level. Lastly, the country is largely counting on its SMEs, which are more flexible and contribute more to job creation than big companies, to ensure the dynamism of its economy.

It is worth noting that Mauritius also has a substantial manufacturing sector outside the EPZ, which accounts for 12 per cent of GDP and generates 50 000 jobs. This sector comprises industries processing soap, sodas, flour, candles and shoes. It supplies the domestic market as opposed to the EPZ sector. It is suffering from the preferential treatment that benefits the EPZ (concerning tax but also lower electricity prices...) and also from the harsh competition imposed on it by imports. However taxation is currently being harmonised.

The tertiary sector has expanded remarkably in the last few years to represent around 60 per cent of GDP in 2001. Over the last five years, Mauritius has carved out a comfortable niche in the world of international financial services thanks to its expanding tax treaty network[2], a reputable offshore jurisdiction, its strategic location between the Far East and the European time zones, and its membership of major regional trading blocs. Financial services now represent a substantial pillar of the economy at 9.4 per cent of GDP. The introduction of new legislation related to anti-money laundering has even further reinforced confidence in the regulatory, institutional and operational frameworks boosting the sector's growth by 14.6 per cent in 2000 and 13.5 per cent in 2001. Alongside financial intermediation, tourism continues to be 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 by 13.6 per cent before receding in 2001 to a growth rate of 0.6 per cent owing to the general context of morosity in Europe and the US and internal factors such as the limited capacity of Air Mauritius. September 11 had a tangible but time-limited impact on tourism in Mauritius as the destination is generally considered to be safe. Consequently, signs of a pick-up were noticeable from the first quarter of 2002 on. In the longer run, the authorities are planning to emphasise quality of service in order to favour high-income as opposed to mass tourism. Whereas the number of tourists was stagnating at 0.6 per cent in 2001, tourism receipts increased by more than 27 per cent, reflecting the higher purchasing power of the visitors. In view of the need to diversify the sector, the authorities also intend to develop integrated resort zones offering all facilities to rich retired foreigners.

In 2001, Mauritius registered a significant slowdown in private consumption and private investment growth rates. The slowdown in consumption growth is a consequence of the rise in unemployment, external shocks such as the appreciation of the rupee and the unsustainability of the previous consumption path (relying on the boom in the EPZ sector and leading

2. Since 1978, Mauritius has been building up a network of double taxation treaties with more than 30 countries in Africa, Asia and Europe allowing significant bilateral cuts in dividends, interest and royalties.

Table 1 - Demand Composition (percentage of GDP)	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**25.8**	**26.3**	**25.7**	**20.9**	**22.3**	**25.6**
Public	8.0	6.6	6.3	6.5	7.7	8.6
Private	17.8	19.7	19.4	14.5	14.6	16.9
Consumption	**76.7**	**77.2**	**74.9**	**73.4**	**71.8**	**71.7**
Public	12.1	13.2	13.0	12.6	12.4	12.2
Private	64.6	63.9	61.9	60.8	59.4	59.5
External demand	**-2.5**	**-3.5**	**-0.6**	**5.7**	**5.9**	**2.7**
Exports	59.6	64.3	61.8	68.6	68.3	67.4
Imports	-62.1	-67.8	-62.3	-62.9	-62.5	-64.7

Source: Authors' estimates and predictions based on Central Statistical Office data.

to high household indebtedness). The general morosity in the former leading sectors also explains the slowdown in the development of private investment, driving the share of private investment in total investment and in GDP to decline constantly. Meanwhile, public investment recorded significant growth. However, it did not compensate for the loss in private investment. Consequently, the investment ratio decreased to 21 per cent of GDP, the lowest rate in the past 15 years. These trends are unlikely to be altered in the short run even though signs of a pick-up in private investment might appear in 2003 following renewed confidence in projects such as Cyber City.

Macroeconomic Policy

Fiscal and Monetary Policy

Despite the fact that the principal aim of recent fiscal policy has been the reduction of the fiscal deficit, Mauritius has registered an average overall fiscal deficit of 4.9 per cent of GDP over the last five years (fiscal years 1996/97 to 2000/01). The situation has worsened particularly in the last two fiscal years owing mainly to the losses experienced by large parastatals[3], and to the active policy of public investment led by the authorities. Consequently, the budget deficit rose to 6 per cent (compared with a target of 2.9 per cent) in 2000/01 and to 6.5 per cent of GDP in 2001/02. In 2002/03, the overall deficit is likely to reach 7.1 per cent of GDP due to a significant slowdown in GDP growth and a very ambitious investment policy, though it was initially programmed at 6 per cent of GDP. The government has announced its intention to bring it down gradually to 3 per cent of GDP by 2005/06.

Concerning fiscal revenue, Mauritius is facing several constraints. In 2001/02, the country faced a shortfall of 1.75 billion rupees in VAT and receipts from customs duties. Customs duties are steadily decreasing due to regional agreements and the extension of EPZ activities. However, taxing profits or corporate finance is a risky strategy as investment is highly volatile and low direct tax is one of Mauritius' comparative advantages (at present, corporate tax is at 15 per cent). Moreover, the government has already increased VAT twice in two years (from 10 to 12 per cent in the 2001/02 budget and to 15 per cent in the 2002/03 budget), which makes it politically difficult to re-use as a tool for increasing revenue. In order to raise the fiscal revenue, the authorities are adopting a new strategy based on broadening the fiscal base of VAT and income tax by lowering the number of exemptions and attempting to capture the informal sector. As a matter of fact, the informal sector is estimated to amount to 20 to 25 per cent of the value added of tourism. In order to fiscalise the sector, the government enforced a tourism bill in June 2002 imposing registration to the Ministry of Tourism as a prerequisite to all activities in the sector.

3. Namely the State Trading Corporation (STC) and the Central Electricity Board (CEB), the deficits of which are due to government regulated prices for petroleum products and electricity.

More generally, the authorities are planning to impose a business registration number on all activities.

Notwithstanding increasing concerns related to the erosion of fiscal revenues, the government has prioritised the financing of a vast public investment programme starting in fiscal year 2001/02. The need for a highly skilled labour force and good infrastructure, necessary to face rising labour costs, and the end of preferential market access, have been the main concerns of the current government. Consequently, despite a shortfall of almost 2 billion rupees compared with the target due to procedural delays and implementation bottlenecks, capital expenditure increased by 38 per cent from 2000/01 to 2001/02. In 2002/03, the investment programme remains the priority of the authorities, bringing the share of capital expenditure to 5.2 per cent of GDP. The objective is to complete the infrastructure development initiated in 2001/02 in the following fields: education, information and communication technology (ICT), infrastructure and environment. To that purpose, the total budget for education has been increased to 6 billion rupees (the increase includes both construction of new sites and recruitment of staff) and amounts to 25 per cent of total budgetary allocations, excluding payment of interest on public debt. The ICT budget comprises the Cyber City project, which should be completed by September 2003 and is estimated at 1.5 billion rupees. Concerning infrastructure, the government is focusing on three priorities: supply of water, road network and public transport. On environment, particular attention is being paid to the wastewater sector, in which the government plans to invest 10 billion rupees over the next 10 years, on the premise that 80 per cent of the population is not connected to the sewerage system. Overall, these four priorities require in 2002/03 the mobilisation of 8 billion rupees. It is also worth noting that the government is putting health next on its agenda of investment after education and is planning to undertake the necessary reforms – highlighted in the forthcoming White Paper on health sector reform - from 2004/05 onwards.

The government is also trying to encourage private investment through the creation of a one billion-rupee equity fund. This fund is intended to help settle new industries in cotton spinning and ICT but also to restructure existing enterprises of the textile sector. It is seen as a tool designed to make up for the lack of private investment, but of limited duration, as the government will eventually withdraw to make place for private shareholders. The private sector is meanwhile highly encouraged to set up a similar equity fund.

Because of repeated large budget deficits, public debt – domestic at 89 per cent – has expanded notably in recent years increasing from 27.4 billion rupees in 1995 to 65 billion in December 2001 (i.e. more than 49 per cent of GDP). On top of this government debt, the external debt of public corporations reached 18.7 billion rupees bringing the overall debt of the public sector to 63.3 per cent of GDP in December 2001. As a result, 6.3 billion rupees have been devoted

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

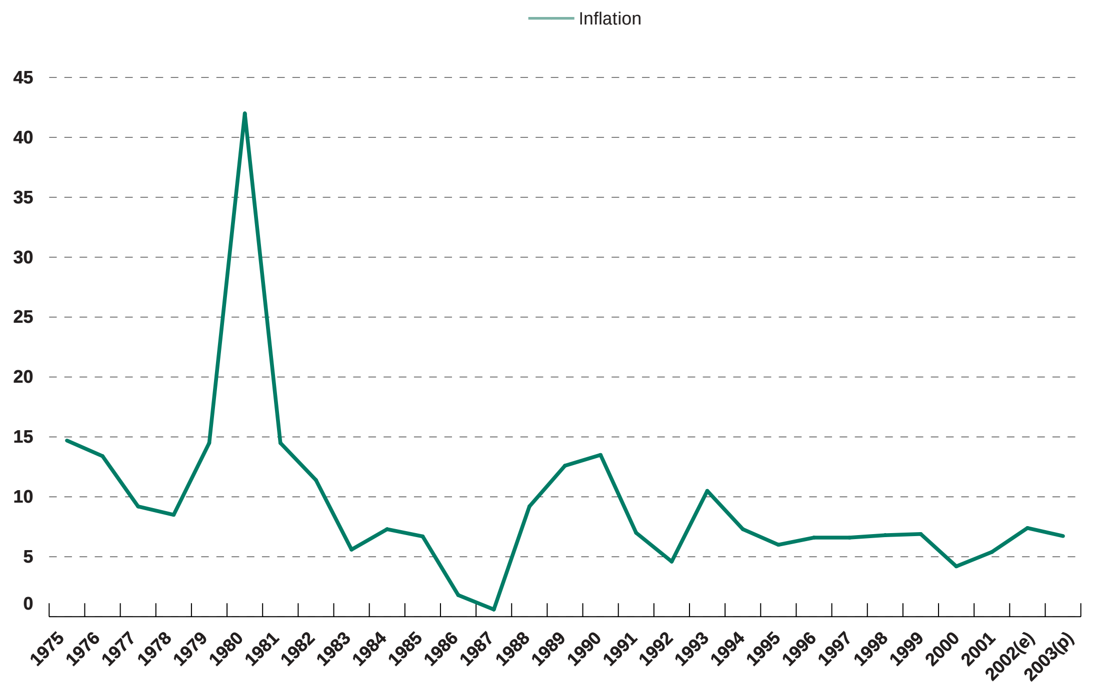
	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Total revenue and grants [b]	**19.7**	**20.3**	**20.8**	**18.3**	**18.0**	**17.9**
Tax revenue	16.6	17.3	18.2	16.2	15.3	15.8
Total expenditure and net lending [b]	**23.3**	**23.8**	**24.1**	**24.4**	**24.5**	**25.1**
Current expenditure	19.6	21.2	20.7	21.2	20.2	20.1
Excluding interests	*16.6*	*17.6*	*17.3*	*17.1*	*16.9*	*16.5*
Wages and salaries	7.5	7.0	6.7	6.6	6.3	6.3
Interest	3.0	3.6	3.5	4.1	3.3	3.6
Capital expenditure	3.7	3.3	3.2	3.1	3.9	4.5
Primary balance	**-0.6**	**0.1**	**0.1**	**-2.1**	**-3.2**	**-3.6**
Overall balance	**-3.6**	**-3.6**	**-3.3**	**-6.1**	**-6.5**	**-7.1**

a. Fiscal year begins July 1st.
b. Only major items are reported.
Source: Authors' estimates and predictions based on Ministry of Finance and IMF

to interest servicing in fiscal year 2001/02, which amounts to a third of fiscal revenue and to a quarter of current expenditure.

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 tight monetary policy. 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 dropped from a level of 6.9 per cent in 1999 to 4.2 per cent in 2000. In 2001, however, several factors pushed the inflation rate upwards again. VAT was increased from 10 to 12 per cent whilst bus fares, food prices, alcohol, beer, cooking gas and medicinal products rose. Consequently, the inflation rate reached 5.4 per cent. The new VAT increase from 12 to 15 per cent adopted in July 2002 is again expected to increase inflation, so that it could reach 7 per cent in 2002, before receding slightly to 6.4 per cent in 2003.

Figure 5 - . Inflation Rate



Source: Central Statistics Office.

On the exchange-rate market, the Mauritian rupee has implicitly been anchored to the US dollar since 1999, following a speculative attack against the rupee in 1998. A large real appreciation of the currency occurred during 1999 and much of 2000 as a result of inflation differentials with trading partners and of the depreciation of the euro *vis-à-vis* the US dollar. Consequently, the real effective exchange rate appreciated by 8.9 per cent. However, since October 2000, the trend has been reversed in response to market pressures, allowing the country to recover much of the previous loss in competitiveness. Between June 2001 and April 2002, the real effective exchange rate depreciated by 3.7 per cent owing to the strengthening of the euro against the dollar.

External Position

Mauritius is one of the most open economies in Africa thanks to its trade preferential agreements and the subsequent development of its EPZ. Mauritius' trade relationships have been mainly shaped by preferential market access. As a result of the Sugar Protocol and Special Preferential Sugar (SPS) agreement which authorises exports to the EU at a guaranteed price three times higher than the world price, most of the sugar production is sold to the EU. Garment products are exported to France, the UK and the US where they enter duty free according to the EU-ACP agreement and the US AGOA. The exports are relatively little diversified in terms of products – even though Mauritius remains one of the most diversified exporters in Africa, after Morocco, South Africa and Tunisia - as EPZ exports (textile at 83 per cent) and sugar exports together amount to 90 per cent of total exports. In terms of destination of trade, Mauritius has so far largely favoured the EU and the US markets. It is however changing its strategy towards greater diversification of destinations, as these markets are becoming increasingly competitive. Along with the continued deepening of trade relationships with the US through the AGOA initiative, Mauritius is today trying to develop intra-regional trade links (within Africa with the SADC and COMESA, but also with Asia through the Indian Ocean Rim). In this context, the political instability displayed by Zimbabwe and Madagascar represents a significant limiting factor.

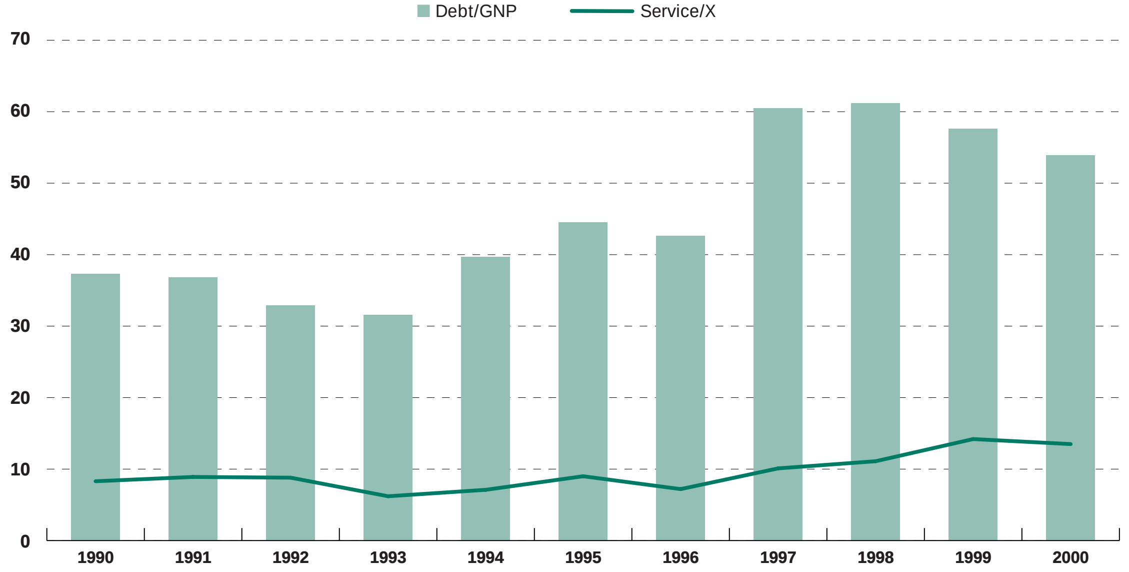
On the imports side, trade relationships are more diversified. Besides high-income countries, such as EU countries (accounting for 27 per cent of total imports in 2001), the US and Hong Kong, other significant

Table 3 - Current Account (percentage of GDP)

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Trade balance	-10.3	-8.6	-10.9	-6.2	-6.6	-5.0
Exports of goods (f.o.b.)	38.6	39.6	34.2	36.1	35.2	36.1
Imports of goods (f.o.b.)	-48.9	-48.2	-45.1	-42.3	-41.9	-41.1
Services	2.9	5.5	8.0	7.3	9.5	
Factor income	-0.5	-0.6	-0.8	0.1	-0.1	
Current transfers	2.7	2.2	2.2	1.4	1.5	
Balance on current account	**-5.2**	**-1.5**	**-1.5**	**2.5**	**4.3**	

Source: Authors' estimates and predictions based on Bank of Mauritius and Central Statistical Office data.

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



Source: World Bank.

partners include India and South Africa. In 2001, imports consisted mainly of manufactured materials such as textile yarns and cotton fabrics (30 per cent), machinery and transport equipment (23 per cent), and to a lesser extent of food and live animals (14 per cent).

Mauritius' external position is structurally characterised by a trade balance deficit offset by net exports in services and current transfers. For the second consecutive year, Mauritius has registered in 2001/02 a current account surplus owing to a net slowdown in the growth of imports and good performance of services exports, both consecutive to the depreciation of the currency. These trends are expected to last in 2002/03 as a result of the strengthening of the euro against the US dollar, although the difficulties experienced in the sugar sector following cyclone Dina lower significantly the volume of exports.

In the last ten years, Mauritius' external debt has increased from below 37 per cent of GNP in 1990 to 61 per cent in 1998 before decreasing to 54 per cent in 2000. Nevertheless, the external debt service has remained relatively stable and low (8.3 per cent of exports of goods and services in 1990, to 13.5 per cent in 2000).

Structural Issues

The structural issues faced by Mauritius pertain essentially to the drastic change of comparative advantages, which the country is experiencing. As regards privatisation, the authorities do not have a programme and are therefore tackling the issue on a case-by-case basis.

The trade agreements, which had been crucial for the sustained economic growth of Mauritius are now coming to an end, requiring a rethinking of the current economic model based mainly on low-end garment production and on a strong sugar industry. These major changes are related to the ending of non-reciprocal preferential market accesses. On the one hand, the elimination of global quotas on clothing – under the Multifibre Arrangement – by the end of 2004 will reduce the preferential access enjoyed by the garment industry, exposing the country to world competition. On the other hand, the gradual phasing out of the EU guaranteed sugar price will definitely hamper the current profitability of the sugar sector.

In this context of trade agreement restructuring, Mauritius is showing much dynamism. Internally, the country is adopting a multiple-direction strategy, trying to diversify its trading partners as well as production itself. As far as product diversification is concerned, the authorities have decided not to concentrate investment on one industry only but to develop several sectors simultaneously based on the idea that the country cannot rely on a single engine of growth. They also chose to develop diversification within the traditional sectors (sugar and textiles) promoting higher value-added activities. Externally, Mauritius is also very active taking the lead in negotiations and promoting regional co-operation whenever possible. For instance, the country is taking the leadership in the negotiations of the Cotonou Agreement, putting forward solidarity within the ACP as the main strategy for discussing the crosscutting issues with the EU. Within the WTO negotiations, Mauritius is advocating the recognition of a new category of countries comprising the small developing economies based on the trade specificities of those entities (their necessary trade openness coupled with their vulnerability to external shocks and the narrowness of their domestic market). Mauritius is also at the front line of the AGOA discussions, having played a significant role in the enactment of the initiative by the US and hosting the coming forum on the subject in January 2003.

Both the authorities and the private sector are showing a great deal of optimism regarding the impact of the AGOA initiative on the economy. They are expecting significant effects not only on the garment industry but also on the diversification process, which should be boosted by the 1 800 products to which the US is allowing duty-free access until 2008. More generally, the country acknowledges the beneficial consequences of an initiative that forces the private sector to comply with very strict rules of quality and service. In the textile industry, Mauritius is constrained by the stringent rule of origin requirement, which obliges the country to use raw cotton coming either from Africa or from the US. It should, however, help enhance regional trade 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[4]. It has also led the country to approach West African economies, such as Senegal and Côte d'Ivoire, which produce cotton and could therefore provide the raw materials to Mauritius for transformation. Already, the US is working on a new version of AGOA (called AGOA II) that will loosen some of the constraints imposed in the first initiative (such as the cap on textile exports). Mauritius is also advocating an extension of the duty-free access beyond 2008.

Changes in the current regulatory framework and developments of infrastructure are currently being implemented to adapt the country to these structural changes and to allow it to reach a new stage of development. The regulatory framework related to FDI has been reformed in order to attract new potential investors. From a fragmented institutional framework with responsibilities given to various institutions and ministries, the government has created a new institution (the Board of Investment, BOI), in charge of the whole set of procedures required of foreign investors to settle new investment projects. Another institution, the MIDA (Mauritius Industrial Development Authority) is in charge of promoting exports, identifying profitable markets for exporters.

By African standards, Mauritius has a well-developed basic infrastructure**.** The large government investment projects of the recent past have improved markedly the island's road transport and network with 1 880 km of tarred roads. Under the control of the Mauritius Freeport Authority (MFA), a parastatal body created in 1992, the country has also 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 government policy to develop the services sector and help Mauritius become a regional trading hub, drawing on the strategic location of the country between Asia and Africa. However, the Freeport has so far had only limited success due to the competition of already existing similar facilities (such as Djebel Ali in Dubaï), the relatively high facility cost – linked to the narrowness of the market and the cost of inputs – and political instability in the region. In order to improve the Freeport, the authorities adopted in July 2001 a new institutional framework, the "Freeport Act" and a strategic plan, with the objective of linking more closely the EPZ and the Freeport, to develop synergies with the airport as well as to attract multinationals. Mauritius also has a well-developed air transport infrastructure by way of the state-owned international airport through which 15 international airlines handle about 150 flights a week.

Mauritius is also taking steps towards achieving its ambition to become a telecommunications and IT hub. With a tele-density of 235 lines per thousand inhabitants, Mauritius has the most developed telecommunications network in Africa (with Seychelles). Nevertheless, the ambitious plan of developing Mauritius as a world-class IT hub still faces constraints related to the present telecommunications environment. The costs of basic telephony are high and internet access prices as well as the number of internet hosts per 10 000 inhabitants is still lagging compared to competitors such as Malaysia, Korea, or Singapore. On the other hand, the completion in June 2002 of the South Africa Far East (SAFE) undersea fibre-optic cable, which links the island to Malaysia, South Africa and then onwards to West Africa and Europe, will boost the island's high capacity bandwidth. Moreover, the government has decided to bring forward the termination of Mauritius Telecom monopoly on fixed-line services to December 2002 instead of December 2003, displaying clearly its will to move forward in the reforms of the telecommunication sector. In addition, the authorities are investing massively in a large

4. Even though those two countries experienced big shocks in 2001/02 – political troubles in Madagascar and heavy floods in Mozambique - that led Mauritius to withdraw its investments from Madagascar and to decrease its interest in Mozambique. This situation should, however, improve as political instability recedes in Madagascar and Mozambique enters a reconstruction phase.

infrastructure ITC project – the Cyber City - with the technical and financial co-operation of India in order to attract national and international investors to relocate their activities to the island. The objective is to develop high value-added ITC activities such as software development and e-education so as to move the comparative advantages of the country up in quality and to create new job opportunities. The project is developed in close technical and financial co-operation with India, which is interested in penetrating the francophone market through the bilingual Mauritian platform. The Cyber City infrastructure should be finished by the end of 2003. As of now, around 40 per cent of the available space has already been sold to companies. However, some Mauritian operators are showing scepticism concerning the project, criticising the lack of clarity and pointing out the scarcity of qualified labour from which the country suffers (the Cyber City requires the training of 7 000 professionals and 13 000 support staff by 2005) as a major limit to the impact of the Cyber City on the economy. In order to meet this challenge, several partnerships, in particular with India, have been set up to offer professional training courses.

The banking sector is one of the most developed in sub-Saharan Africa and Mauritius has achieved a remarkable position in the international market for financial intermediation. As at June 2001, offshore banking – dominated by Barclays, HSBC and South Africa Investec – comprised 12 offshore banks and total assets stood at $3.8 billion, while non-bank deposits were $1.6 billion. Onshore banking comprised 10 commercial banks with the Mauritius Commercial Bank and the State Bank of Mauritius holding about 70 per cent of banking assets. Domestic banking 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, above the Basel requirement of 8 per cent. The ratio of non-performing loans has been lowered to the OECD level (under 5 per cent). Along with the banking sector, the non-bank financial sector is taking off at a high pace, comprising 19 349 companies at end-June 2002 (from a level of 3 272 in December 1995). Overall, the financial and business services account for 18 per cent of total value-added. Financial supervision has followed the pace of development of the entire sector. The supervision of the offshore sector was strengthened in December 2001 with the introduction of the Financial Services Development Act which brings under one umbrella the regulation and supervision of the non-bank financial sector. Moreover, the Economic Crime and Anti-Money Laundering Act came into force in June 2002 and led to the establishment of the Economic and Crime Office. In June 2000, Mauritius was also one of the first countries to comply with the OECD request to commit to the elimination of harmful tax practices by the end of 2005. It includes a commitment to exchange information on tax matters and transparency.

Political and Social Context

Mauritius enjoys a very stable political system based on a multiparty democratic republic. Legislative power lies in the hands of the elected National Assembly, which comprises 62 elected representatives, 60 from Mauritius and two from the island of Rodrigues. The last general elections were held in September 2000 opposing two main alliances: the *Mouvement Militant Mauricien* and the *Mouvement Socialiste Mauricien* (MMM-MSM) alliance on one side and the Labour Party and *Parti Mauricien Social Democrate* (LP-PMSD) alliance on the other. The MMM-MSM alliance won 54 of the 62 parliamentary seats. The alliance had a pre-electoral agreement to share the post of Prime Minister. Sir Anerood Jugnauth, leader of the MSM, was to hold the post of Prime Minister for the first three years and then become President of the Republic. For the remaining two years of the five-year mandate, Paul Berenger, leader of the MMM party would be Prime Minister. This is the first time that Mauritius is experiencing a sharing of power between two parties in one mandate. In 2003, when Paul Berenger accedes to the post of Prime Minister, he will be the first non-Hindu Prime Minister of Mauritius.

Within the African context, Mauritius can be considered a successful case of sustained economic growth associated with a substantial welfare improvement of the entire population as shown by the statistics. Life expectancy is the highest in sub-Saharan Africa, reaching over 70 years (68.3 years for males, 75.4 for females) in 2001. The infant mortality rate is the lowest, at 14.3 per 1 000 live births and has largely improved from the rate of 22 recorded in 1996. However, the ageing of the population due to the decline of the fertility rate from 3.25 in 1970 to 1.90 in 1998, coupled with the increase in life expectancy deeply affects the population dependency ratio, with implications on the growth potential and heavy pressure on public finances. Over the next ten years, labour force growth is expected to decline to less than 1 per cent per year, adding considerable pressure on pension funds.

With an adult literacy rate of 85 per cent in 2001 (88.1 per cent for males, 81.8 for females), free education until university level, and universal primary education, the education standards of Mauritius are remarkable within the African context. Nevertheless, gross enrolment rates drop from 104 per cent in the primary sector to just 63 per cent in the secondary level, as a result of the high dropout and failure rates at the end of the primary level. The causes of this drop are related to the inequalities which persist in the society itself and the organisation of the education system which pushes the pupils to compete fiercely to enter the few star secondary schools and to repeat a year in the event of failure. The consequences of dropping out after primary school are very detrimental to the pupils as it is officially forbidden to work before the age of 15 and failing children are not channelled towards more appropriate paths. However, the authorities are making reforms towards less competition at such an early stage by decentralising the school system and linking secondary school attendance with the place of residence.

The changing socio-economic environment has not been accompanied by a revision of the education system, which still counts few pupils enrolled in science, computing and engineering. As a result, the labour market in Mauritius is facing an increasing skills mismatch and a consequent rise in unemployment despite sustained economic growth. The unemployment rate increased to 8.8 per cent in 2000 (8.3 per cent for males, 9.6 per cent for females) from 2.8 per cent in 1990, and estimates for 2001 suggest a level of 9.2 per cent (8.8 per cent for males, 10.1 for females). The current unemployment issue derives from the evolution of the country from a low-skilled/low-technology economy towards a service economy. Consequently, while the labour force is still highly characterised by semi-skilled and low-skilled workers who account for 97 per cent of employment, many specialised jobs cannot be filled by the current unemployed because of a lack of related skills. Another important factor to be reckoned with is the women's participation rate, which increased from 30 per cent in the 1980s to 40 per cent in 2000. Given the nature of the unemployment problem, the government has decided to lead a threefold policy. First, as the small- and medium-enterprise sector contributes the most to job creation, the authorities are taking measures to promote SMEs by allowing them lower interest rates on loans, exemption from customs duties... Secondly, in order to reduce the mismatch between required skills and available human capital, massive investments in education are to be undertaken during 2001/02 and 2002/03 involving the construction of new secondary schools, tertiary level infrastructure, hiring of new staff and awarding of scholarships in IT and biotechnology. Finally, in order to facilitate the integration of job seekers in labour market, large-scale training will also be undertaken.

Morocco

key figures

- Land area, thousands of km² 447
- Population, thousands (2001) 30 430
- GDP per capita, $ (2001) 1 128
- Espérance de vie (1995-2000) :66.6
- Illiteracy rate (2001) 50.1

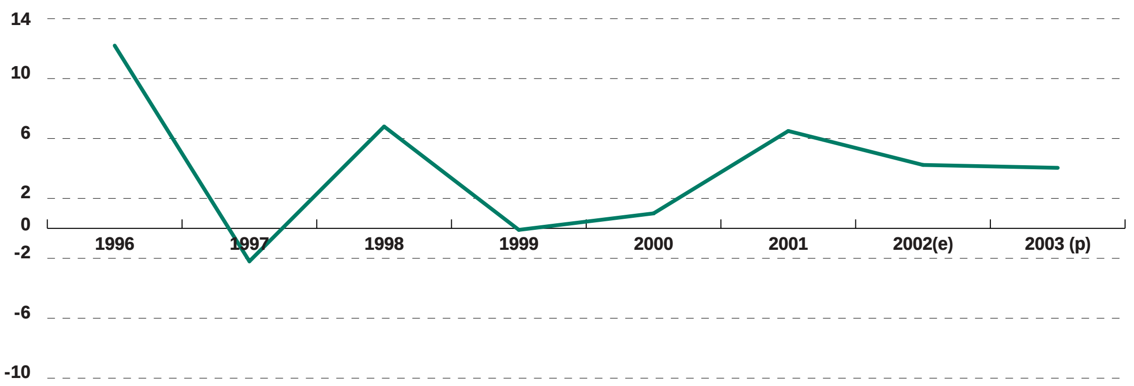
Morocco

THE IMPORTANCE OF WEATHER-DEPENDENT non-irrigated agriculture in Morocco's economy has made growth historically uneven. In 2001, the country recorded satisfactory results in both growth and the consolidation of macroeconomic stability. GDP increased by 6.5 per cent (compared with 1 per cent in 2000) fuelled by a 27.3 per cent surge in agriculture. GDP growth should be 4.2 per cent in 2002 and about 4 per cent in 2003. Inflation is expected to remain under control at 2.5 per cent in 2002 (driven by higher food prices) and to rise slightly, to 3 per cent, in 2003. To sustain growth, the government will have to press on with its reform programme and to bring industry up to standard in preparation for the 2012 implementation of the free trade agreement with the European Union.

To sustain growth, Morocco will have to continue its reform programme and to bring industry up to standard

Social indicators deteriorated in Morocco throughout the 1990s, leading the government to introduce anti-poverty measures in recent years. Most notably these include a new rural development strategy and an education initiative targeting universal primary education. Attempts are also being made to democratise political life, improve governance and fight corruption.

Figure 1 - Real GDP Growth



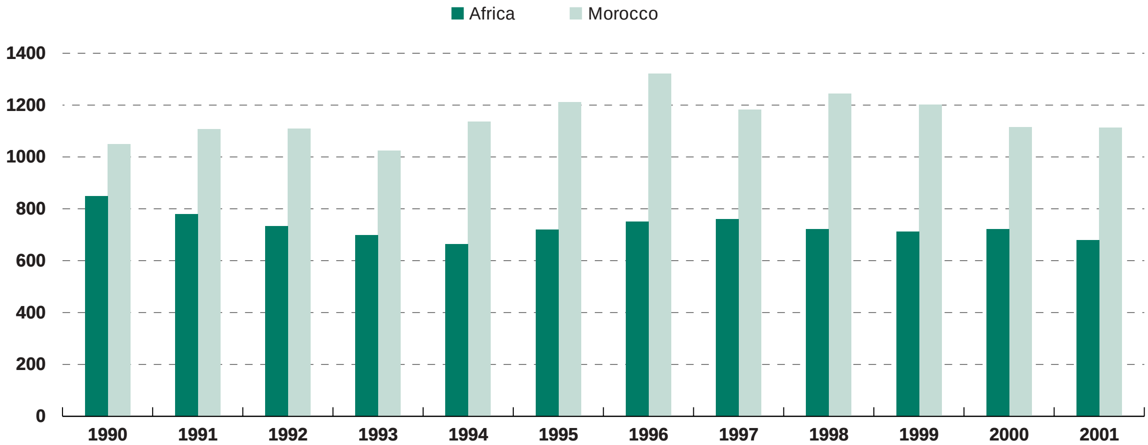
Source: Authors' estimates and predictions based on National Statistics Office data.

Recent Economic Developments

Agriculture contributed 3.2 percentage points to the 6.5 per cent GDP growth in 2001, compared with –2 points the previous year. Good weather in some parts of the country underpinned the 27.3 per cent jump in agricultural GDP (against a drop of 14.7 per cent the previous year).

The farming sector includes both traditional agriculture (characterised by little mechanisation, strong dependence on weather and small-scale holdings) and large-scale modern operations producing vegetables and citrus fruit for the export market. At the start of the 2000/01 growing season, the government announced a number of incentives designed to stimulate production and to guarantee income levels, including subsidising fertilisers and offering debt relief. In June 2001, as part of the third phase of the anti-drought programme begun in April 2000, it pledged 1 577 million dirhams for drinking water supplies, renewing the conservation programme and protecting forest resources.

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



Source: Authors' estimates based on IMF data.

In 2001, agriculture was hit for the third year running by a drought that affected part of the country. That said, the growing season remained better than that of the previous year, supported by regions spared the effects of the drought, either naturally or via irrigation. After a worrying dry start to the 2001/02 season, the weather improved with abundant rainfall in March and April 2002. Harvest prospects for the year are therefore good.

Cereal production in 2000/01 was significantly better than the previous year (45.2 million quintals versus 19.4 million) but it remains 14 per cent below the five-year average. Seasonal fruit and vegetable production expanded by 6.4 per cent in response to a 3 per cent expansion of cultivated area, and despite a 4.5 per cent drop in the production of early harvest produce.

The livestock sector performed to expectations, helped by a government supply of cheap feed (to replace drought-affected forage) and by continuing health measures (banning cattle imports to protect against "mad cow" disease). The number of cattle increased slightly in 2001 to 22.3 million.

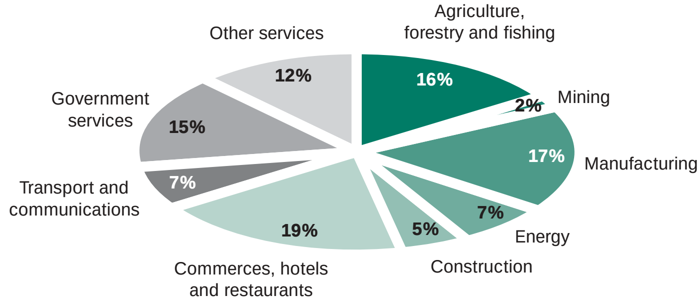
Fishing showed a 22.5 per cent improvement in 2001 over the previous year, with a 28 per cent rise in inshore catches and a 8.2 per cent drop in deep-sea yields. The failure to renew agreements with the European Union and Russia in December 1999 left Moroccan waters entirely to local fishermen. The government continued a development plan launched in 1997 and introduced an octopus preservation programme in May 2001, extending the biological rest period from four to six months, setting minimum export prices and limiting catches until the end of 2003. Seafood exports rose 11.2 per cent in 2001.

Non-agricultural GDP increased by 3.7 per cent in real terms in 2001 (slightly up from 3.4 per cent the previous year) with steady performances in construction, mining and energy and, to a lesser extent, industry and services. Non-agricultural activity contributed 3.3 percentage points to GDP growth (versus 3 points in 2000). The secondary sector (employing 19.7 per cent of the working population) contributed 1.6 points (0.8 per cent of GDP in 2000).

The construction industry's contribution to growth was steady at around 0.3 percentage points in 2000 and 2001. The sector grew by 5 per cent per annum on average between 1997 and 2000, spurred by the government's campaign against insalubrious housing. The attendant increase in house construction created 43 000 jobs net in 2001 and the sector's value added contribution to GDP was 5.8 per cent in 2001, down from 7.1 per cent the previous year.

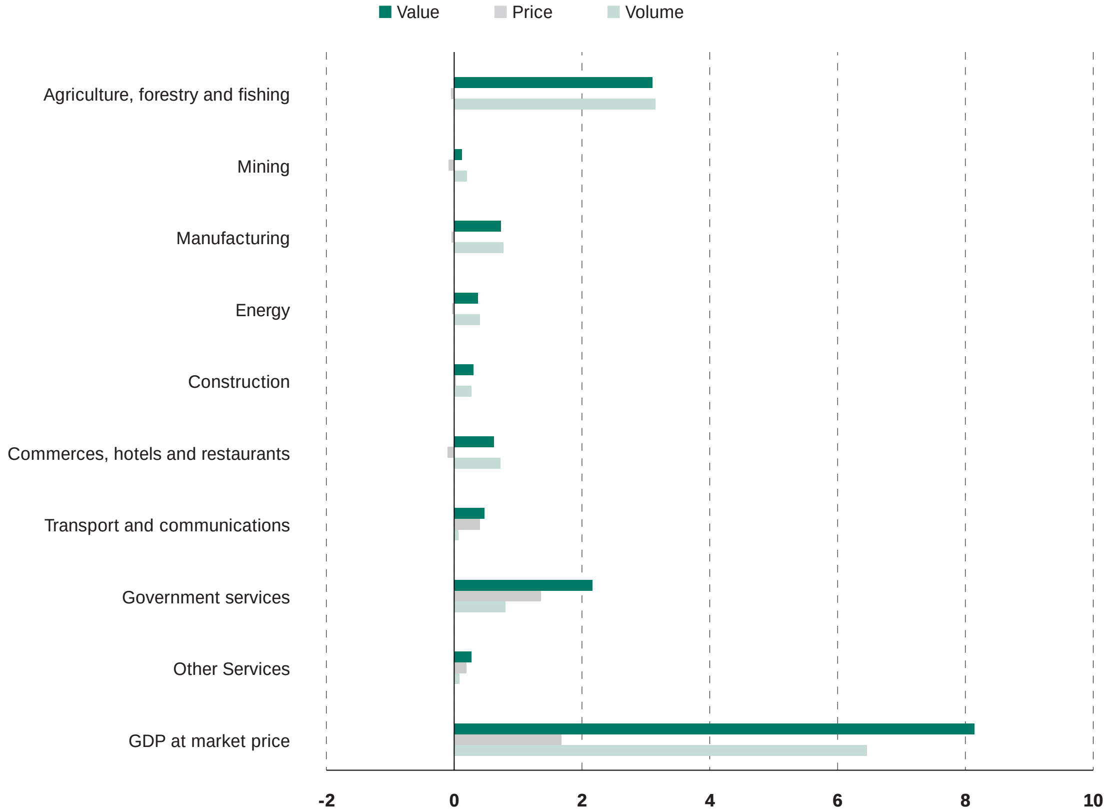
Mining usually accounts for nearly a fifth of total exports. The national phosphates company, OCP is

Figure 3 - GDP by Sector in 2001



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

Figure 4 - Sectoral Contribution to GDP Growth in 2001



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

planning to double production capacity to maintain the country's position as the third largest exporter of phosphates and phosphate by-products in the world. It will build a new 120 000-tonne plant at Jorf Lasfar also taking 74 per cent control of a large Indian fertiliser firm with a million-tonne annual production capacity.

The sector's contribution to GDP growth was 0.2 percentage points in 2001 (–0.2 points in 2000). The mining production index rose 2.4 per cent after falling 3.4 per cent in 2000. Growth was mainly due to increased phosphate output (raw phosphates were up by 2.5 per cent, phosphoric acid was up 3.2 per cent and fertiliser was up 11.4 per cent).

The growth in value added of the energy sector was 8.1 per cent in 2001 (after a decline of 0.5 per cent in 2000). Its contribution to GDP growth was 0.4 percentage points (zero in 2000). With improved economic activity and increased electrical coverage (which reached 50 per cent, with the connection of 1 760 villages during the year), consumption of electricity rose 5.1 per cent. Local generation only met 3 per cent of domestic demand, so energy imports rose from 11.1 million tonnes (oil equivalent) in 2000 to 12.1 million in 2001. A concurrent drop in oil prices prevented energy costs from increasing by more than 1 per cent. In the second half of the 1990s, Morocco began diversifying its energy sources by building dams, reconverting certain power stations to coal and by searching for and producing oil. A number of oil exploration contracts were signed with foreign companies in 2001, mostly for offshore blocks and in the south of the country. The government also encouraged public-private partnerships, especially in electricity distribution, and privatised the two main oil refinery companies, SAMIR and SCP.

Manufacturing's value-added contribution grew by 4.2 per cent in 2001 compared to 3.5 per cent in 2000, though this figure masks varied results. Metal, mechanical, electrical and electronic industries grew 6.4 per cent (3.5 per cent in 2000) and chemicals and parachemicals by 5.9 per cent (3.4 per cent in 2000), but food-processing dropped from 5.2 per cent (2000) to 4.5 per cent. Likewise, production in the textile and leather industry slowed by –2.7 per cent after growing by 0.7 per cent in 2000.

Manufacturing's contribution to GDP growth rose from 0.6 percentage points (2000) to 0.8 points in 2001. Government efforts to create more attractive conditions for new industrial investors included the opening of an industrial park in Al Hoceima province in October 2001.

The contribution of the service sector (36.7 per cent of the working population) to GDP fell from 1.3 percentage points in 2000, to 0.8 points. This is chiefly due to a slower increase in its value added, from 4.3 per cent in 2000, to 2.6 per cent in 2001.

Commerce contributed 0.7 percentage points to growth (0.5 points in 2000) and generated 37 000 jobs. The sector's added value was up, at 5.2 per cent (from 4.1 per cent in 2000), thanks to the sound performance of the agricultural sector.

Services made a small, 0.1 percentage point contribution to growth (after 0.2 points in 2000) and value added slowed to 0.7 per cent (1.4 in 2000). Despite the negative effects of the 11 September attacks, tourism held up relatively well with revenues of 28.8 billion dirhams (33.1 per cent more than in 2000). Acknowledging the sector's great potential, the government has taken a number of steps to reinforce the tourist infrastructure, boosting hotel capacity and opening new seaside resorts.

The value added of transport and communications only rose 1 per cent, down from 9.4 per cent in 2000.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation [a]	**20.7**	**22.5**	**23.2**	**23.4**	**24.1**	**25.0**
Public	3.7	2.9	3.0	2.9	2.9	2.8
Private	17.0	19.6	20.1	20.5	21.3	22.2
Consumption [a]	**85.8**	**81.2**	**82.9**	**79.8**	**79.0**	**78.1**
Public	17.4	19.1	19.1	19.5	19.2	18.9
Private	68.4	62.1	63.8	60.3	59.9	59.2
External sector	**-6.5**	**-3.8**	**-6.1**	**-3.2**	**-3.2**	**-3.1**
Exports	27.4	30.1	31.3	32.8	33.4	34.2
Imports	-34.0	-33.9	-37.4	-36.0	-36.5	-37.3

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

Economic growth in 2001 was primarily driven by public consumption, which grew 10.2 per cent (2.3 per cent in 2000) with the civil service pay rises and the government's expansionary fiscal policy.

Macroeconomic Policy

Fiscal and Monetary Policy

The budget deficit shrank significantly in 2001 to 2.7 per cent of GDP (from 5.9 per cent in 2000) and it continued to fall in 2002, when it is expected to reach 2 per cent. The opening of *Maroc Télécom* to private capital in February 2001 greatly improved public finances, enabling the government to cope with civil service pay increases, while boosting the economy by lowering taxes, embarking on a major capital spending programme and continuing its social policies. The anti-drought programme was sustained and efforts to reach universal education, increase electrification and drinking water supply and eradicate insalubrious housing were all increased.

The government also continued to reduce external debt, clearing its payment arrears. Due to a reduction in the central bank debt (*Bank Al Maghrib*), Treasury debt fell by 8.8 per cent. The Hassan II Fund to promote economic and social development received 10 million dirhams raised by privatisation.

The monetary context in 2001 was strong with inflation under control and plenty of banking liquidity. Money supply rose sharply by 14.1 per cent (8.4 per cent in 2000) with an 86.4 per cent rise in net foreign currency reserves as a result of privatisation, and a 4.3 per cent increase in credits to the economy.

Despite this strong increase in money supply, inflation measured by changes in the cost of living index, was only 0.6 per cent (1.9 per cent in 2000). The government's cautious monetary policy and a 1 per cent drop in food prices (following a 1.5 per cent increase in 2000) explain this modest increase. As food prices rose by 5.2 per cent on the year to July 2002, inflation is expected to reach 2.5 per cent in 2002.

The healthy monetary situation enabled *Bank Al Maghrib* to reduce its intervention rates twice in 2001. Five-day rates were cut from 6.5 per cent to 5.25 per cent and seven-day call rates from 5 per cent to 4.25 per cent. The average interbank rate was 4.44 per cent. Interest rates continued to fall in 2002 but may rise again if the government borrows domestically to make up for shortfalls in budgeted privatisation revenue in 2002.

In April 2001, the authorities reshuffled the basket of currencies against which the dirham is indexed, causing a 5 per cent devaluation against the dollar. In so doing, the government yielded to pressure from exporters facing tough competition from a 9 per cent appreciation of the dirham against the euro since 1999. In the first half of 2002, the dirham rose 5 per cent in nominal value against the dollar and fell 1.5 per cent

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants[a]	**23.9**	**29.4**	**26.2**	**31.0**	**30.6**	**30.3**
Taxes	21.6	23.7	22.7	21.9	21.5	21.3
Total expenditure and net lending[a]	**29.1**	**28.5**	**32.1**	**33.7**	**32.6**	**31.7**
Current expenditure	22.1	22.3	24.2	24.2	23.4	22.8
Excluding interest	*16.2*	*17.3*	*18.9*	*19.3*	*18.9*	*18.6*
Wages and salaries	11.2	11.9	12.0	12.5	12.2	11.9
Interest payments	6.0	5.1	5.3	4.9	4.5	4.1
Capital expenditure	5.6	5.1	5.4	5.6	5.4	5.4
Primary balance	**0.8**	**6.0**	**-0.6**	**2.2**	**2.4**	**2.7**
Overall balance	**-5.2**	**0.9**	**-5.9**	**-2.7**	**-2.0**	**-1.4**

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

against the euro. The dirham's stability and improved export performances in 2002 should allow the authorities to maintain the exchange rate in 2003. However, tariff cuts on imports competing with local goods may push the government to devalue once more in order to protect local manufacturers.

External Position

The trade balance improved from 2000 to 2001, with the deficit shrinking from 9.7 per cent to 8.8 per cent of GDP. It is expected to stabilise at 8.7 per cent in 2002 and 2003.

Imports fell dramatically by 1.3 per cent in 2001 after soaring 15.7 per cent the previous year. This overall figure is largely explained by a 9.9 per cent drop in capital goods imports and a 5.1 per cent drop in imports of raw materials (mineral origin). In contrast, other imports increased, specifically, semi-processed goods (8.3 per cent), food (8 per cent) and consumer goods (3.8 per cent). The energy bill was wholly maintained at nearly the same level as the previous year.

Exports grew by 2 per cent, down from 7.1 per cent the previous year. Sales of finished consumer goods (39 per cent of total exports) increased by 5.5 per cent. Exports of phosphates and by-products (17.5 per cent of the total) rose 7.5 per cent. On the other hand, sales of capital goods and food products both fell, by 7.3 per cent and 3.4 per cent respectively.

Morocco's trade remains focused on European Union countries, which took 77.1 per cent of its exports and supplied 56.2 per cent of its imports in 2001. France is its major EU partner, buying 31.9 per cent of exports and providing 21.5 per cent of imports, followed by Spain (14.7 per cent of exports, 9.4 per cent of imports). Asia is the next biggest regional trading partner taking 11.6 per cent of exports and providing 16.3 per cent of imports. Trade with Arab Maghreb Union neighbour states is small, at only 2.8 per cent of Morocco's exports and 2 per cent of imports.

The current account experienced a 4.9 per cent surplus in 2001 after a deficit of 1.4 per cent the previous year. This improvement was mostly due to a 33.1 per cent increase in transport revenues and a 60.6 per cent increase in remittances from Moroccans living abroad (which registered 20.8 per cent growth in 2000).

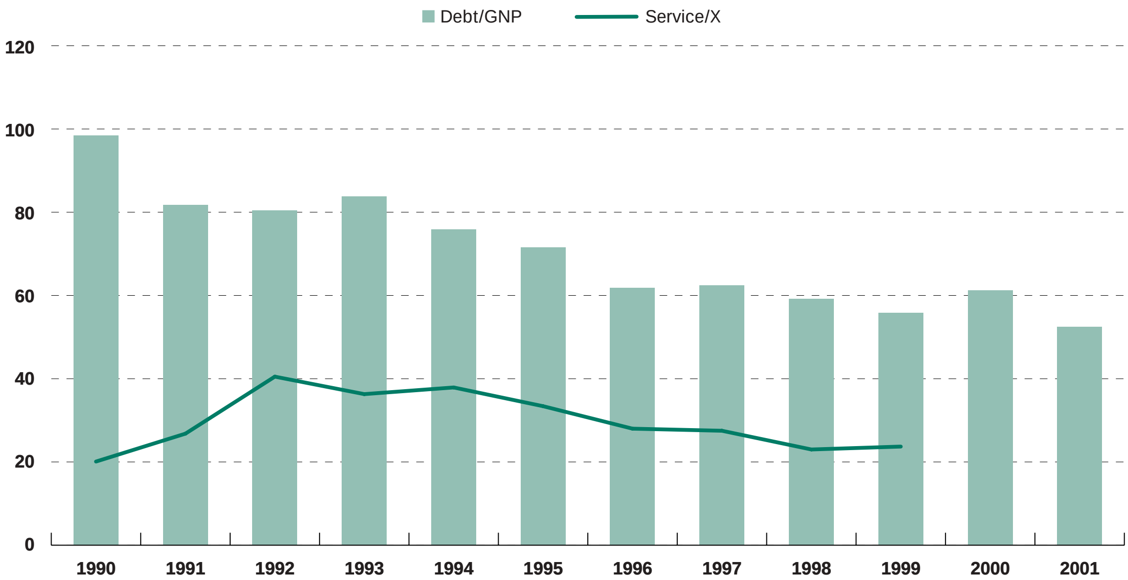
Tourist revenue rose in 2001 despite the effects of the 11 September attacks, which reduced visitor arrivals in the last four months of the year. Despite this contraction, tourist numbers increased by 3 per cent in 2001, to 4.4 million visitors. The amount tourists spent per person was also up 21 per cent, to $575 per head. A 10.4 per cent rise in Moroccan nationals visiting from abroad (1.97 million compared with 1.79 million in 2000) sustained tourism revenues in the face of a 2 percentage decline in foreign visitor numbers (2.46 million versus 2.51 million in 2000). The effects of the 11 September attacks were more deleterious in 2002, with tourism revenues down by 24 per cent in the first seven months. The international situation and risk of war in Iraq could pull them down further.

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade balance	-7.5	-6.9	-9.7	-8.8	-8.7	-8.7
Exports of goods	20.8	21.3	22.3	21.0	21.6	22.3
Imports of goods	-28.4	-28.2	-32.0	-29.8	-30.3	-31.0
Services balance	0.9	3.2	3.5	5.6		
Factor income	-4.0	-2.8	-2.6	-2.5		
Current transfers	7.1	6.1	7.5	10.5		
Current account balance	**-3.6**	**-0.5**	**-1.4**	**4.9**		

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 goods and services)



Source: World Bank.

Irrespective of the international outlook, the government is continuing its policy of developing and promoting tourism's strong potential. Resulting from the national tourism conference in Marrakesh at the beginning of the year, an agreement was signed in October 2001 to implement a broad tourism development programme. This provides 30 billion dirhams for the sector and aims at boosting foreign tourist numbers to 10 million in 2010 (from 2.5 million in 2001) by more than doubling the number of hotel beds, from 97 000 to 230 000. The government also plans to stimulate the sector by improving training for tourist workers, reducing taxes, subsidising the purchase of land for tourism and opening new tourist offices abroad.

The liberalisation of *Maroc Télécom* in 2001 pushed investment and foreign private-sector loans to a record 33.1 billion dirhams for that year. Subtracting exceptional occurrences, including income deriving from the 1999 sale of a GSM operating licence to a consortium led by Spain's *Telefonica*, and the sale of 35 per cent of *Maroc Télécom*, total foreign investments and private-sector loans in 2001 were 9.7 billion dirhams (6.9 billion in 2000). Foreign direct investment will probably fall in 2002, especially if the further 16 per cent sale of *Maroc Télécom* does not take place by the end of the year.

The 35 per cent sale of *Maroc Télécom* and the current surplus caused foreign exchange reserves to rise sharply in 2001, to the equivalent of nine months of goods and services imports (from six in 2000).

The government continued paying off its external debt in 2001 (a process begun in 1993) and repayments increased by 9.6 per cent to total 13.2 billion dirhams for the year, including 1.2 billion in debts converted into private investment. Public external debt was 115.5 billion dirhams (118.7 billion in 2000) and its share in the total public debt fell from 41 per cent (2000) to 38 per cent. This trend should continue in 2002 but is offset by an increase in domestic borrowing. Domestic debt reached 176 billion dirhams in 2001 (46 per cent of GDP) and should rise in 2002, triggering higher interest rates if privatisations scheduled in the 2002 budget have not taken place.

Structural Issues

The government is continuing structural reforms as spelled out in the 2000 to 2004 economic and social development plan. Several measures aimed at achieving 5 per cent growth per annum have been taken, including fighting poverty, increasing access to basic social services and consolidating macroeconomic and financial stability.

Morocco is also steadily abolishing tariffs under its three-stage free-trade association agreement with the European Union (EU), which will completely liberalise the market for industrial goods by 2012. Under the aegis of this, capital goods imports were liberalised on 1 March 2000 and duties on imports Morocco does not also produce will be eliminated by 2003 (after 25 per cent cuts in March 2000 and March 2001). The abolition of duties on items that compete with local production will not start until 2003 from which date 10 per cent reductions will be implemented annually. Liberalisation of agricultural and fishing imports has yet to be negotiated.

In order to prepare Moroccan firms for competition with European products, the government is continuing its modernisation programme. In 2002, the EU earmarked 122 million euros in aid, for the multiple purposes of: implementing the association agreement, supporting Moroccan firms, providing training in the tourism, textile and new technology sectors, creating jobs for rural women and encouraging sustainable management of the argania tree[1].

Morocco also has free-trade agreements with Tunisia, Egypt and Jordan, and it began negotiations for one with the United States in 2002.

A privatisation programme was launched in 1993 after steps in the 1980s to open up the economy. By the end of June 2001, 65 firms (including 28 hotels) had been privatised, earning the government 39.4 billion dirhams. The first 56 privatisations (prior to 1999) brought in 15.8 billion dirhams. The sale in 2001 of 35 per cent of *Maroc Télécom* to Vivendi Universal brought in 23.3 billion dirhams alone, comprising 59 per cent of all privatisation revenues between 1993 and June 2001. The sale of a second GSM licence in August 1999 to a consortium led by Spain's *Telefonica* also earned the government 10.8 billion dirhams. Privatisation has touched a range of sectors including telecommunications (*Maroc Télécom*), fertiliser distribution (Fertima), insurance (CNIA) and oil refining (SAMIR and SCP).

Between 1998 and 2000, the privatisation programme was put on hold while modifications to the list of candidates and the timetable were made. From the outset, 75 firms and 37 hotels had been named in the privatisation law (known as Law 39-89). This was subsequently amended to extend the completion deadline by three years, to 31 December 1998. Thereafter, a law passed in May 1999 (Law 34-98) abolished the deadline and reduced the number of target firms.

The draft 2002 budget anticipated privatisation revenue of 12.5 billion dirhams from the sale of, the state tobacco firm, the *Banque Centrale Populaire*, the state vehicle manufacturer (Somaca), and a 16 per cent share of *Maroc Télécom*. Talks between the government and interested investors are ongoing though none were completed in 2002. Sales may be finalised in 2003, but the loss of expected earnings in 2002 will oblige the government to increase domestic borrowing.

In addition to these planned privatisations, the government intends to dispose of firms in a variety of sectors including: textiles (Setafil and Cotef), sugar (Sunabel and Surac), printing (Sonir), and tourism (the Asmaa, Ibn Toumert hotels and the national zoo in Rabat). Other firms not specifically named will also be privatised with surveys being conducted in several

1. This tree (Argania spinosa) is native to Morocco. It is very resistant to drought and heat and is abundant in the arid and semi-arid regions of the southwest, where it plays an important role in the local economy. Its wood provides fuel, its leaves and fruit are used as forage, and the oil extracted from its fruit kernels is used as a food additive and in traditional medicine. The argania tree provides an income to nearly 3 million people.

sectors. Concession agreements have been signed for electricity production, water and electricity distribution, waste water purification, drinking water supply and highway management.

The Casablanca stock exchange remained sluggish in 2001 despite tax incentives offered in that year's budget. The main share index (IGB) fell 7.4 per cent, after a 15.3 per cent decline in 2000, with 31 per cent fewer transactions (60 per cent fewer in 2000). In January 2002, two new indexes were launched, the Moroccan All Share Index (MASI) of 55 quoted companies and the Moroccan Most Active Share Index (MADEX). Activity in both in 2002 failed to recover. Between January 2002 and the end of September, MASI and MADEX fell by 15 per cent and 24 per cent respectively. Trading volume fell 33 per cent in the first half of 2002 year-on-year. The poor results of listed companies, lack of investor interest in emerging markets and the firms' dependence on traditional bank funding all contributed to the market's weak performance. The privatisation programme might have revived the situation had it stipulated floating some of the companies' capital on the stock exchange.

In recent years, the government has responded to strong public demand by placing great priority on cleaning up public life and on fighting corruption. A coalition of civil society groups presented the prime minister with a memorandum to this effect in December 1998. A conference organised by the General Affairs Ministry and in association with the World Bank was held in September 1999. Entitled, *Fighting corruption: For a modern approach, the international experience and the importance for Morocco*, it led to the establishing of a national commission composed of business, civil society and government representatives. In April 2001, this commission launched a campaign to raise basic standards in public life, organising a series of events to promote public awareness about existing laws.

The commission has also compiled a list of government reforms pertaining to business structure and regulation which it will publicise. Among the items noted are customs reform, implementation of the investors' charter, establishment of commercial courts and regional auditing authorities, and new pricing and competition legislation.

In addition, the government has made efforts to boost transparency in public services by simplifying procedures, obliging government bodies to give account of their decisions, establishing an ombudsman's office, *Al Wassit* (the mediator) and abolishing the privileges of top government officials.

The political determination to clean up public life is genuine and progress has been made, however there remains a great deal to be done. The first national conference on administrative reform in May 2002, entitled *The Moroccan public sector and the challenges of 2010*, stressed the degree of corruption and disorganisation that still plagues public bodies.

Political and Social Context[2]

Morocco has been in a period of political transition since 1998 when the government, lead by the longtime left-wing opposition leader Abderrahmane Youssoufi, alternated for the first time. Begun by the late King Hassan II, the movement towards democracy has accelerated since the accession of King Mohammed VI in 1999. Though the government declared development, social progress and strengthening the rule of law its chief priorities, power still lies with the *Makhzen* (rule of the sultan) and freedom of expression does not extend to discussion of the king, Islam or the Western Sahara question.

The first parliamentary elections under the new king, held on 27 September 2002, were free and fair. No clear majority was produced. The Socialist Union of Popular Forces (USFP) won the most seats (50) in the 325-seat House of Representatives, followed by the nationalist Istiqlal Party (48) and the Islamic

2. Statistics in this section come from the UNDP 2002 Human Development Index and from *Tableau de bord social* (Social Indicators), put out in 2002 by the general economic policy directorate of the Ministry of Economy, Finance, Privatisation and Tourism.

Fundamentalist Justice and Development Party, which tripled its number of seats to 42. Thirty-five women were elected, compared with only two in the 1997 elections.

The king named Driss Jettou, a non-partisan figure and head of the national phosphates company OCP, (the country's largest public corporation) as his prime minister. In choosing one of Hassan II's former cabinet ministers, the king by-passed the USFP secretary general and previous prime minister, Youssoufi. Jettou was asked to form a coalition, which would have a little more room to manoeuvre than the previous government thereby pushing economic reform and reducing inequality.

Morocco fell behind in human development in the 1960s, when investment failed to keep pace with rapid population growth. Though progress has been made since then and social indicators have improved, the social situation deteriorated again in the 1990s. The country fell from 117th place on the World Human Development Index in 1995 to 123rd place in 2002.

Since the 1950s, strong population growth (2.5 per cent in 1955 and 1.9 per cent in 1994) has increased the working population (aged over 15), which grew 3 per cent per annum between 1982 and 1994 and 3.6 per cent between 1995 and 2001. The working population reached 50.4 per cent in first quarter 2002 (47.3 per cent in 1982), boosting the number of unemployed to 12.5 per cent in 2001 (it fell slightly to 12.2 per cent in first quarter 2002). Urban unemployment rose significantly from 16.9 per cent in 1997 to 19.5 per cent in 2001. It should be noted that more women were jobless (24.7 per cent) than men (18 per cent). Urban unemployment hit the 15 to 24 age group hardest (they accounted for 36.4 per cent of it in first quarter 2002), followed by the 25 to 34 bracket (26.1 per cent) and those between 35 and 44 (9.6 per cent).

The jobless rate for educated people (26.8 per cent) was higher in 2001 than for those without educational qualifications (11.8 per cent), but this dropped to 25 per cent in first quarter 2002. Unemployment among the urban uneducated fell from 15.2 per cent in 1999 to 11.1 in first quarter 2002.

Per capita income at constant prices grew only 0.9 per cent a year between 1991 and 2001 (versus 2.5 per cent annually between 1984 and 1990). Poverty increased from 13.1 per cent of the population in 1991, to 19 per cent in 1998, affecting more than 5 million people. Rural areas are worse affected with persistent drought, greater unemployment and fewer job opportunities contributing to increased poverty rates (from 18 per cent in 1991 to 27.2 per cent in 1998).

Rural development figures highly in the government's reform agenda. From the early 1990s, anti-poverty programmes touching infrastructure, education, health care and employment have been carried out in poorer areas. They have included a Social Priorities Programme to improve access to basic education (especially for girls), health care and jobs, a rural drinking water project (PAGER), and programmes to build roads and extend electrification in the countryside. An EU-funded investment programme was launched by the Northern Provinces Development Agency and in June 1999, a national anti-poverty social development fund was approved by Parliament.

Other reforms include setting up a Social Development Agency to support programmes to help the poor, launching social programmes backed by the Hassan II Fund and a proposal for compulsory health insurance, which was presented to parliament in May 2002 but has not yet been approved.

The health-care situation has sharply improved, with infant mortality dropping from 119 per 1,000 births in 1970 to 41 in 2000. Life expectancy rose from 59 years in 1980 to 67.7 in 2000. Vaccination of babies between 12 and 23 months against six major diseases (tuberculosis, diphtheria, tetanus, whooping cough, polio and measles) reached 90.5 per cent in 1998, while 40 per cent of births between 1995 and 2000 were attended. The number of doctors per 1 000 people was 46 between 1990 and 1999 (compared with 70 in Tunisia and 85 in Algeria). The government spent 1.2 per cent of GDP on health care in 1998 (the latest figure available).

Illiteracy among adults (aged 15 and over) was high, at 51.1 per cent in 2000. In 1998, among the population aged 10 and over, more females were illiterate (61.9 per cent) than males (45.5 per cent) and the rate was higher in the countryside (66.9 per cent) than in the towns (33.7 per cent).

The government launched a broad new anti-poverty rural development plan in 1998. In addressing the rural economy as a whole, its goal is to meet the needs of the population in terms of both investment and basic services and to provide income by creating jobs and encouraging small-scale fishing and farming.

An education plan came into force for the 2000/01 academic year with a goal of universal primary education by the start of the 2002/03 year and universal nursery education by the year after that. This includes both institutional and teaching reforms, including lowering the compulsory schooling age to 6, compulsory registration of children at 4, developing non-formal education, encouraging the private sector, revising curricula and expanding the exam structure. A national programme to boost enrolment in rural areas was also started and in September 2000 a national adult literacy programme was launched with the opening of mosques for classes. The government aims to reduce illiteracy to 20 per cent by 2010 and to eradicate it by 2015.

Mozambique

key figures

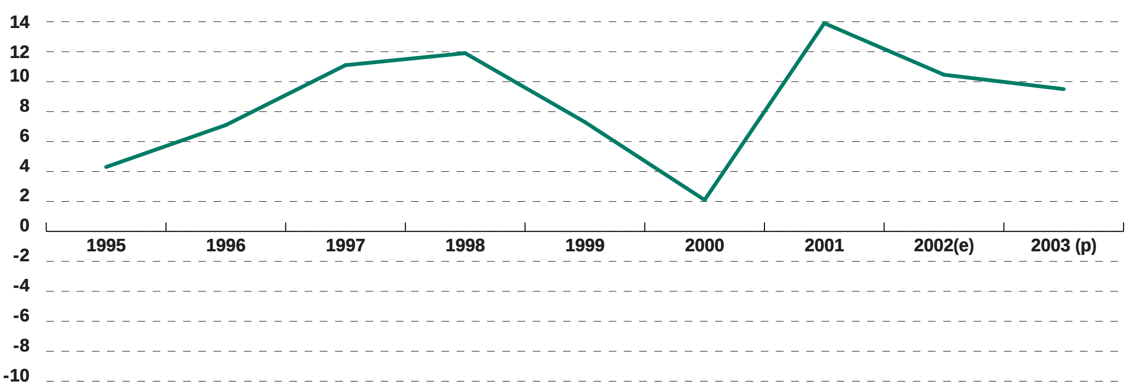
• Land area, thousands of km²	802
• Population, thousands (2001)	18 644
• GDP per capita, $ (2001)	193
• Life expectancy (2000-2005)	38.0
• Illiteracy rate (2001)	54.7

Mozambique

MOZAMBIQUE HAS BEEN REPORTED as a post-war rehabilitation success. Since the end of the civil war in 1992, the country has embarked upon a series of impressive macroeconomic and structural reforms that have resulted in a remarkable rate of economic growth over the last five years. Mozambique's economic growth is however very volatile. This volatility reflects the structural fragilities of its productive basis, the concentration on farming or agriculture-based industries, and a geographical location that makes the country vulnerable to natural disasters, as patently demonstrated by the 2000 and 2001 floods and the 2002 drought. Economic activity which was down to about 2 per cent in 2000, recovered in 2001 – reaching 13.9 per cent – underpinned by the post-flood reconstruction activities and the first full year of output from the Mozal aluminium smelter. Growth is expected to continue at 10.5 per cent in 2002 and 9.5 per cent in 2003. Moreover, new large foreign investments are planned and are expected to have a strong impact on growth in the years to come. Against these prospects lies the shadow of the HIV/AIDS epidemic. With a prevalence rate of 13.2 per cent, it is estimated that HIV/AIDS may result in the reduction of growth by up to 2 per cent per annum. Another major challenge to Mozambique's prospects is the absolute poverty of the vast majority of the population, usually without any links to markets and dependent on subsistence

"Mega projects" will continue to fuel economic growth in Mozambique

Figure 1 - Real GDP Growth[a]

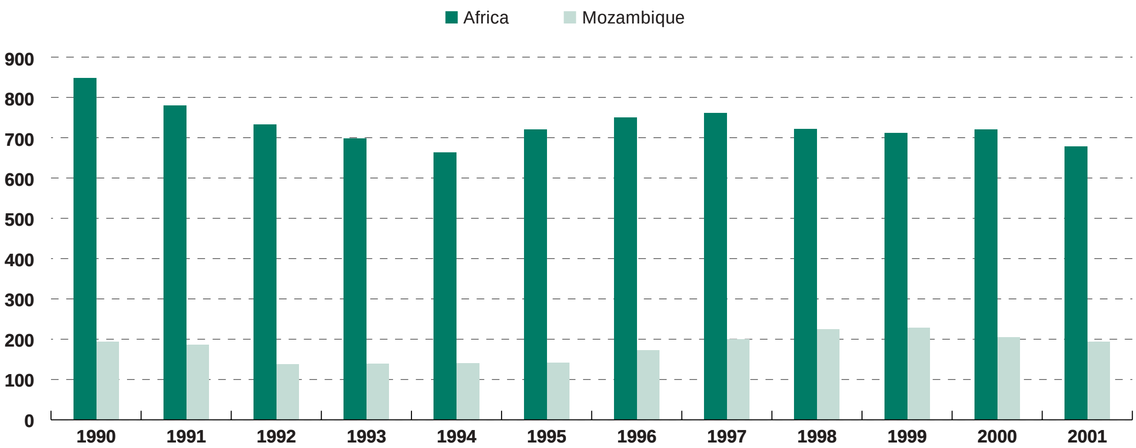


a. The percentage scale is different from the other countries since GDP growth exceeded the level of 10 per cent.
Source: Authors' estimates and predictions based on IMF and domestic authorities data.

agriculture. Sustainable development of the country also has to contend with the prevailing large inequalities between the southern and northern regions.

As part of the effort to reduce the incidence of poverty and fight the spread of HIV/AIDS, in April 2001 the government launched an Action Plan for the Reduction of Absolute Poverty, which contemplates increased spending on education and health and focuses on the development of agriculture, transportation and commerce. The authorities are also committed to continuing efforts to stabilise the economy and improve the government's financial management.

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



Source: Authors' estimates based on IMF.

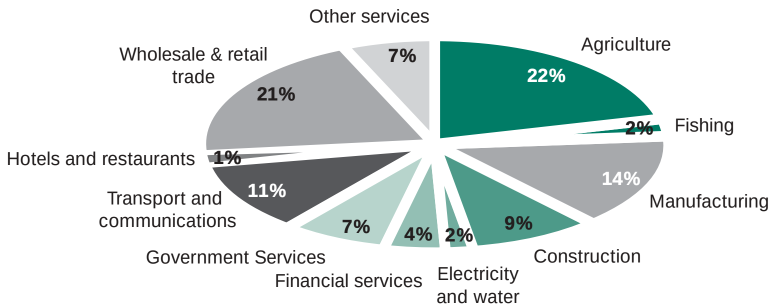
Recent Economic Developments

After almost a decade of persistent efforts, and taking advantage of the newly-achieved peace, enthusiastic international support for post-war reconstruction and good weather, in 1996 the authorities succeeded in bringing macroeconomic stability to Mozambique's economy. As a result of the combination of these factors, over the past five years, the country has registered a remarkable growth rate in a non-inflationary environment, with average real GDP estimated to be around 8 per cent, or about 5.5 per cent in real per capita terms. The decline experienced in 2000, owing to the devastating floods that hit the country, was reversed in 2001, thanks to the first full year of production from the Mozal smelter, as well as a recovery in the agricultural, construction and transport sectors. The substantial growth in the construction sector results partly from work on the second phase of Mozal – Mozal II - (which will double the smelter's capacity), and partly from post-flood reconstruction. The latest government estimates for 2001, suggest that Mozambique's GDP growth rate was close to 14 per cent. The strong recovery of transport and construction, as well as investment in new large-scale projects continued to be the main determinant of growth performance in 2002 (estimated at 10.5 per cent). The start of production of Mozal II and the construction of a gas export pipeline to South Africa are expected to underpin growth in 2003, which is projected at 9.5 per cent.

In spite of these gains, Mozambique's development process remains vulnerable to internal and external shocks, such as political instability, which followed the political election of 1999 and natural disasters that hit the countries in 2000 and 2001. These shocks affected the economy in a way that required complex policy responses which neither the domestic authorities nor the international partners were always able to deliver. As a result, macroeconomic tensions built up that found their way into a currency crisis during the first half of 2001. The strong monetary measures taken to tighten liquidity and stabilise the currency resulted in a sharp increase of interest rates and tighter commercial bank lending, with consequences on economic activity of an economy that was still recovering from a major negative supply shock.

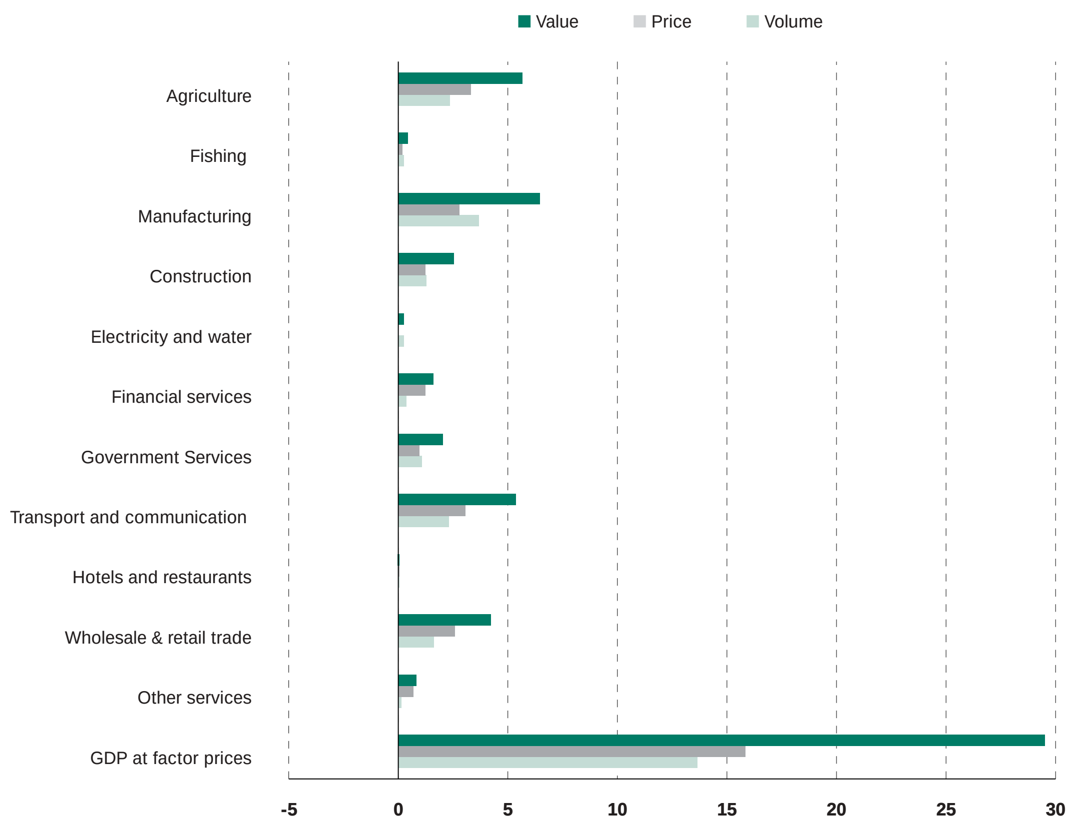
Agriculture still represents the bulk of the economy involving some 80 per cent of the population. The sector comprises a large smallholder sector that produces around 95 per cent of value-added in agriculture, mainly as food crops, such as maize and cassava and some cash crops such as cotton, cashews and, more recently, sugar. Far from reaching their full potential, sugar and cotton have done reasonably well in recent years, although cotton production is highly dependent on world market prices. The sugar industry is currently protected and is being rehabilitated with major foreign investments which have resulted in the output of four sugar estates to increase to 214 000 tons in 2001/02

Figure 3 - GDP by Sector in 2001



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

Figure 4 - Sectoral Contribution to Real GDP Growth, 2001



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

compared to 67 000 in 2000/01. It is estimated that total sugar production will reach 400 000 tons in 2005, with the mills operating at full capacity. Although current production is less than internal consumption, Mozambique has been allowed to export a limited amount of sugar to the EU under the "everything but arms initiative". However, sugar producers suffer large losses as imports, particularly from Zimbabwe, circumvent the import surcharge[1]. In order to alleviate this pressure, in April 2002 the government granted a temporary VAT exemption for sugar.

Cashew nuts production – of which Mozambique was a world leader in the early 1970s – has collapsed following controversial policies in the mid-1990s. On the advice of the World Bank, in 1995 the Mozambican authorities liberalised domestic raw cashew marketing and foreign trade, lifting a then existing ban on the export of unprocessed cashew nuts from the world's largest producer of processed cashew kernels. Given the financial advantages of exporting raw nuts rather than processing, and the willingness of the Indian processing industry to acquire the raw material to feed its expanded processing capacity, traders have been able to compete the domestic processing industry out of the market. As a result, almost all local factories have been forced to close, leaving tens of thousands of workers and their relatives without an obvious alternative livelihood. These cashew trade liberalisation measures came into effect immediately after the privatisation of the industry and had not been subject of negotiations in the process. They were largely opposed by the new owners and management of the privatised companies who were still having to undergo rehabilitation and were not ready to face the competition from India. Furthermore, liberalisation also turned out to be detrimental for the peasants, who were supposed to secure higher prices for their nuts on the world market and who are now worse off, since, with next to no competition from local factories, the domestic traders and exporters of raw nuts have been able to push prices down.

Agriculture in 2001 is estimated to have grown about 10.8 per cent. Despite localised flooding that occurred in early 2001 in some areas of the central provinces, and which resulted in the loss of about 77 000 hectares, agriculture had a good crop year, especially for maize. In the 2002 crop season, severe dry weather in some parts of Mozambique's central and southern regions caused a drop of more than 60 per cent of the total expected output of cereals and grains. According to the World Food Programme (WFP) estimates, the number of people in need of food aid amounted to around 600 000 (about 3 per cent of the total population) in October 2002. However, in the main cereal growing areas of the north central parts of the country, production actually increased. Taking the country as a whole, the 2002 maize harvest is estimated at 1.24 million metric tons, an increase of 8 per cent compared to 2001. While this means that the country has an estimated surplus of 100 000 tons in the north, high internal transport costs make it uncompetitive to move this down to areas of shortages in the south. It is therefore estimated that the northern surplus will be exported to neighbouring countries, most particularly Malawi, and that import requirements for the affected regions are estimated at 642 000 metric tons of which 70 050 will be provided in the form of food aid.

In addition to the poor condition of roads, which represents a major impediment to food access, the agriculture food system suffers from a series of weaknesses and bottlenecks. Of the 36 million hectares of potentially arable land, it is estimated that only 10 per cent are presently of productive use, mainly due to absence of irrigation systems and other agricultural infrastructures. Moreover, the lack of an adequate rural financial system to create incentives for savings and provide credit, undermines the marketing of agricultural and livestock products. Access to credit is also hampered by the prevailing land tenure arrangements which means that land cannot be privately owned, as well as by the absence of an open market for land titles, which means that land cannot be used as collateral in credit applications. The inputs and equipment used are of very low quality and fertiliser use is very limited, owing to high costs.

In order to assist the development of the sector, the Ministry of Agriculture and Rural Development has launched the Agricultural Sector Investment Programme (PROAGRI) which has received substantial financing from the donor community. Started in 1999 and with a 5-year time frame, the programme aims at raising the productive capacity and productivity of agriculture using labour-intensive technologies and sustainable management

1. According to the National Sugar Institute (INA), about 80 000 tons of sugar are smuggled into Mozambique a year.

of agricultural resources. These objectives are reached through a series of initiatives, such as: dissemination of improved cultivation techniques and post-harvest management methods for the priority food and cash crops, improvement of access to market, facilitation of access by small rural producers to financial services, dissemination of market information, and promotion and support of the formation of farmers' associations and private investment in the marketing system.

The manufacturing sector output has grown dramatically over the last five years, with an average growth of 16.1 per cent in the period 1995-99. This reflects a substantial recovery of capacity utilisation and the start of more efficient operation of privatised enterprises. The sector was seriously damaged by the 2000 floods but recovered in 2001, recording a growth rate of about 30.5 per cent. In addition to recovery from a very low start, growth in 2001 reflects Mozal's first full year of production. This FDI project – the biggest in the country ($1.3 billion) – started production in June 2000. Following the announcement in June 2001 of an $840 million expansion that will double capacity at the aluminium plant, many of Mozambique's larger and better qualified construction companies have been involved in the works on Mozal II, contributing to a growth in construction of about 13.8 per cent in 2001.

Mega-projects and development corridors appear to be the principal means by which the authorities seek to promote the structural changes in the economy of Mozambique. So far, these new initiatives, including the Mozal project, have been concentrated in the Maputo Development Corridor – conceived by the South African and Mozambican governments – which is the direct link between the port of Maputo and the industrial heart of South Africa. Plans also exist, or are in advanced stages of development, financial negotiation and formation of partnerships, for a number of development initiatives along the Beira (Centre) and Nacala (North) corridors.

The development of the southern economy of Mozambique based on large FDI projects is finding a new boost with the beginning in May 2002 of the construction phase of the gas pipeline between the Pande and Temane gas fields (Inhambane Province in Southern Mozambique) and Secunda (South Africa). The purpose of the gas project is to supply the large South African gas market. The 895 km long pipeline is budgeted at $1 billion and will be owned in a joint venture between the South African Company Sasol, and the governments of South Africa and Mozambique.

Other large investment projects have been implemented or are planned. These include mineral projects such as the heavy sands projects in Chibuto (Gaza province, in the South) and Moma (Nampula province, in the North).

The water and electricity sector grew by 11.5 per cent in 2001, mainly owing to the power generated by the dam Hidroelectrica Cahora Bassa (HCB), owned at 82 and 18 per cent by the Portuguese and Mozambican governments, respectively. From the western province of Tete, where HCB is located, the power is routed south to South Africa and back into Mozambique. By contract, more than 50 per cent of the electricity is sold to South Africa under special price arrangements, about 40 per cent to Zimbabwe and less than 10 per cent to Mozambique. A recent agreement signed in April 2002 with the South African Eskom allows Mozambique to purchase electricity from HCB, at the domestic price and in local currency, paying Eskom a transit fee for the use of its transmission lines.

There are ongoing negotiations between Mozambique and Portugal concerning the future of HCB[2]. Despite the government's efforts in the last few years to expand rural electrification, at present only about 6 per cent of the population has access to electrical power, leaving the rest dependent on biomass.

2. The management of the dam complains that the price paid by Eskom for HCB power is so low that HCB has been unable to pay off its enormous debt to the Portuguese Treasury or act as a motor for the development of the Zambezi Valley. Recently the Portuguese authorities have voiced concern that this arrangement appears to subsidise the South African economy at the expense of the economies of Mozambique and Portugal.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Gross capital formation	**28.0**	**36.8**	**35.2**	**36.6**	**43.1**	**49.0**
Public	16.1	11.5	13.3	14.0	13.5	12.6
Private	11.9	25.3	21.9	22.6	29.6	36.4
Consumption	**98.9**	**90.8**	**92.5**	**79.9**	**72.1**	**63.0**
Public	7.8	12.2	13.5	11.4	11.5	11.1
Private	91.1	78.6	79.0	68.5	60.6	51.9
External sector	**-26.9**	**-27.6**	**-27.7**	**-16.5**	**-15.2**	**-12.0**
Exports	12.1	10.1	12.3	21.9	22.9	24.7
Imports	-39.0	-37.7	-40.0	-38.5	-38.1	-36.7

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

The strategic location of Mozambique provides the country with a vast potential in the area of transport and communication infrastructure. The government has undertaken programmes aimed at modernising transport infrastructure (port, rail network, road network) of the Maputo, Nacala, and Beira corridor, connecting with South Africa, Malawi and Zimbabwe, respectively. In 2001, transport grew by 24.6 per cent as a result of a return to normality in the southern road and rail systems which were completely disrupted during the 2000 floods.

The high economic growth that occurred in Mozambique in the period 1996-99 has been sustained mainly by the rise of domestic demand. Private consumption has been supported by external aid inflows to ensure maintenance of minimum consumption levels. However, the boom in investment from 1999, as an impact of the large inflow of FDI resulted in a substantial shift in the demand composition of GDP. Together with the remarkable pick-up of investment, Mozambique's external position has improved dramatically since 2001 thanks to the exports of aluminium produced by Mozal.

Macroeconomic Policy

Fiscal and Monetary Policy

A rolling five-year medium-term expenditure framework was introduced in 1997 and the government is now required to make budget proposals to the National Assembly in a medium-term framework. However, the existence of extra-budgetary activities has hampered the proper conduct and analysis of fiscal and other macroeconomic policies.

In order to improve the efficiency, transparency and accountability in the management of public funds, the government has carried out a Public Expenditure Management Review and adopted for the 2002 budget a more detailed functional classification system. The budget execution report for 2002 will include the review of extra-budgetary activities, especially donor-financed programmes and Treasury lending operations. Moreover, at the end of November 2001, the cabinet approved a new Public Finance Management Law which provides a sound basis for centralised budgetary control and reporting and adopts modern principles of fiscal responsibility and transparency.

Macroeconomic stability is still highly dependent on aid inflows. In 2001, foreign aid represented 46 per cent of total public expenditure and, in particular, two thirds of public capital expenditure.

In 2001, the revised budgetary programme contained a significant rise in expenditure, reaching 31 per cent of GDP, partly financed through additional aid inflows. The increase reflects a rise in priority expenditures, in response to the economic and social impacts of the floods, and the cost of re-capitalisation of two of the largest private commercial banks (with some public shareholding) - *Banco Austral* and *Banco Commercial de Moçambique* - which faced liquidity and solvency problems. The cost of servicing the bonds issued to re-capitalise the two banks was equal to 2.3 per cent of 2001 GDP and is planned to be over 1 per cent of GDP in 2002.

Efforts have been made to increase revenues in order to balance the large deficits (the overall deficit before grants stood at 18.2 per cent of GDP in 2001). The consolidation of the value added tax, introduced in 1999, together with the favourable impact of the depreciation on customs collection led to a revenue out-turn in 2001 higher than programmed by 0.5 per cent of GDP.

The medium-term fiscal targets call for a significant reduction in Mozambique's level of aid dependency and prioritise fiscal consolidation. In 2002, the government attempted to achieve a substantial reduction of total expenditures, below 30 per cent of GDP, aided by the end of the emergency and reconstruction costs relating to recent floods and the bail out of *Banco Austral* and BCM. However, the amended budget approved in September 2002 envisaged a rise of expenditures above target. Over the medium term, expenditure rationalisation will be reached by improving expenditure control and effectiveness and cutting non-essential spending. Nevertheless, the government will continue to raise social spending substantially – particularly on primary health and education. Thus priority sectors account for 68 per cent of non-interest budgetary resources in 2002[3], compared to 66.2 per cent in 2001.

On the revenue side, the medium-term framework has set a target of increasing revenue to 15 per cent of GDP by 2005. For this, the authorities have planned and started to implement a series of reforms aiming at increasing the efficiency of the tax system. In particular, a new fiscal incentive code has been introduced in 2002 in order to limit the type and scale of tax exemptions granted to investors thereby allowing for effective control and tracking. This new measure, in tandem with the enforcement of tax collection, led to a 5 per cent higher tax raising in the first half of 2002, compared to the same period last year. Moreover, a new income tax law was submitted to parliament in December 2001 and its full application is expected in 2003.

Since the mid-1990s, the capacity of the authorities to control broad money growth and curb inflation has increased substantially in Mozambique. Following the

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

	1995	1999	2000	2001	2002(e)	2003(p)
Total revenue and grants[a]	**20.9**	**23.6**	**24.3**	**25.8**	**23.8**	**25.0**
Taxes	10.2	11.0	11.6	11.5	11.9	13.1
Grants	9.7	11.7	11.6	12.9	10.5	10.6
Total expenditure and net lending[a]	**23.9**	**25.1**	**28.4**	**31.1**	**31.7**	**29.2**
Current expenditure	10.1	12.2	13.3	14.0	15.1	13.7
Excluding interest	*8.5*	*11.6*	*13.1*	*13.4*	*13.5*	*12.9*
Wages and salaries	2.3	5.8	6.5	6.6	6.5	6.4
Interest on public debt	1.6	0.6	0.2	0.6	1.6	0.8
Capital expenditure	13.3	11.5	13.3	14.0	13.5	12.6
Primary balance	**-1.4**	**-0.8**	**-3.9**	**-4.7**	**-6.4**	**-3.4**
Overall balance	**-3.0**	**-1.4**	**-4.1**	**-5.3**	**-7.9**	**-4.2**

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

3. In the period January-June 2002, in the recurrent expenditure, 21 per cent had been spent on education, 10 per cent on health and 8 per cent on security and public order. As for capital expenditure, 22.5 per cent has been allocated to roads, 11.8 per cent to other public works and 12.1 per cent to agriculture and rural development.

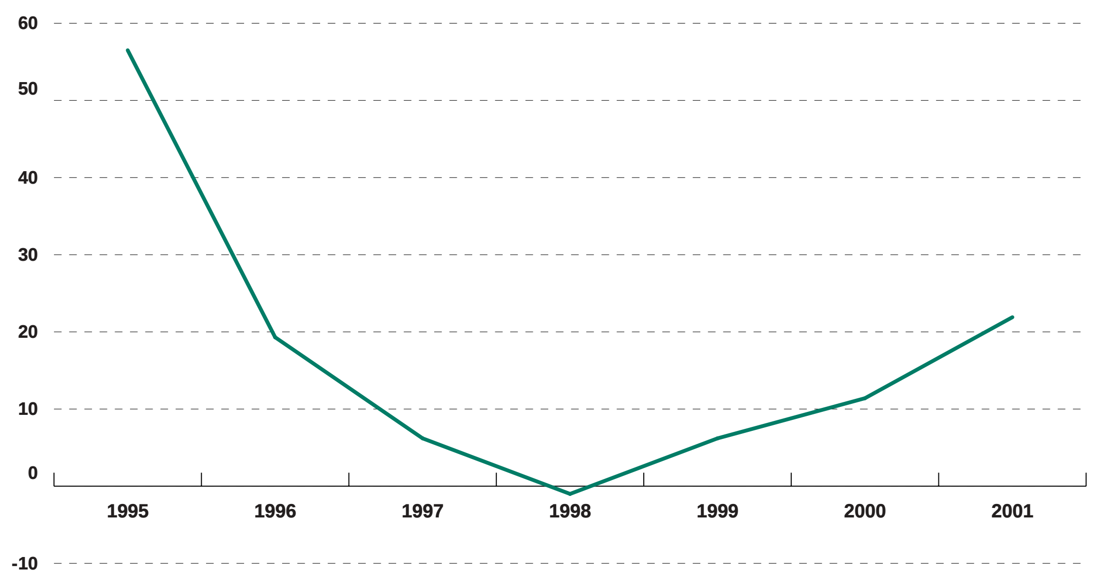
partial privatisation of the state-owned banks in 1996 and 1997, control of money growth has been helped by the fact that the monetary losses of the banking system no longer underpin broad money expansion. Thus, broad money expansion was reduced from 55 per cent in 1995 to 35 per cent in 1999. Inflation rates declined 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, ending the year at 11.4 per cent. Inflation increased further in 2001, peaking at 21.9 per cent in December, well above the government target of 7 per cent. This was due to exchange rate weakness during the first half of 2001, as well as the monetary and fiscal implications of the banking crisis.

As a response to the upsurge in inflation, the authorities tightened monetary policy considerably by raising interest rates, with the Central Bank's Standing Lending Facility increasing to 35 per cent by September 2001, from 30 per cent in March and 22.5 per cent in January. In parallel, the monetary authorities strengthened the reserve requirements[4]. In addition, *Banco de Moçambique* (the central bank) stepped up its open-market position, leading to a 30 per cent increase in Treasury bills outstanding between June 2001 and March 2002, and increased sales of foreign currency to ensure adequate sterilisation of aid-financed government spending.

Broad money growth, which was around 48 per cent in August 2001, declined to 30 per cent in March 2002 and the target for end-2002 has been set at 19 per cent, while the end of 2002 inflation target has been set at 8.1 per cent. In 2002, consumer inflation increased to a high of nearly 25 per cent year-to-year in February but the tight monetary policy has been successful in reducing it to a rate of 9 per cent year-to-year in November 2002. The average inflation for 2002 is estimated to be about 9.5 per cent , while 2003 inflation is projected at 8 per cent.

Figure 5 - Inflation Rate (end of period)



Source: IMF and domestic authorities' data.

4. In particular, the fortnightly requirements have been changed from 7.95 per cent to 11.51 and a daily minimum of 10 per cent has been established.

Under a flexible exchange-rate regime, during 2000 the metical – the national currency – depreciated by 18.6 per cent in nominal terms against the US dollar. In 2001, currency depreciation accelerated, having been 28 per cent between December 2000 and June 2001. The 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 subsequent heavy pressures 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 were being converted into dollars. The currency finally stabilised in the third quarter of 2001, in response to the monetary tightening measures. Thus, between December 2001 and June 2002, the domestic currency had depreciated by only 2.1 per cent against the US dollar, almost 26 percentage points below the rate in the same period of the previous year, underpinned by high interest rates and strong exports. During the 2nd half of 2002, it continued to hold steady against the US dollar.

External Position

Thanks to the 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 has been simplified and *ad valorem* tariffs have been re-grouped for different kinds of goods. In the context of the Southern African Development Community (SADC) trade protocol, which aims at eliminating tariffs on intra-SADC trade, the government will reduce the top tariff rate from 30 per cent to 25 per cent, effective from January 2003.

In December 2001, Mozambique was declared eligible to the African Growth and Opportunity Act (AGOA) by the US Congress. Under AGOA, Mozambique will have duty-free trade access for textiles, clothing and footwear to the US market. However, the extent of the benefit of the act is difficult to gauge owing to the limited development of the textile sector in the country, which was aggravated by the failure of most of the privatised and other still state-owned companies to stand up to foreign competition (as the latter is aided by both trade liberalisation and smuggling).

Total exports have for long depended on a few agriculture and fishery products, such as prawns, cotton, timber and cashew. While timber and cotton exports are slowly recovering to pre-war levels, cashew exports have declined substantially since the mid-1990s and accounted for less than 2 per cent of total export earnings in 2001. The sector has also suffered from the sharp fall in world prices which in 2001 were less than half of the average prices recorded in 1995-2000. Nevertheless, the composition of exports is starting to diversify: since 1998 the mega-projects in the Maputo Corridor have boosted electricity exports, which accounted in 2001 for the third major export after aluminium and prawns.

In 2001, the import structure was characterised by a slowdown in imports of consumer goods, equipment and machinery, mainly due to the lower imports of emergency aid, and the end of post-2000 flood reconstruction works, respectively. However, imports of fuel and electricity, owing to the investment project in the Maputo corridor have increased considerably. The balance of trade improved dramatically in 2001. The deficit fell from $447.9 million in 2000 to $307.6 million as Mozambique's exports almost doubled in value from $364 million in 2000 to $703.7 million in 2001 – a rise of 93.3 per cent – owing to the export of aluminium produced by Mozal which brought in about $400 million. The value of imports fell slightly, from $1 162.3 million in 2000 to $1 117.5 million in 2001.

Despite the increasing trend in imports of goods and services related to further large-scale foreign investments (including Mozal II, the gas pipeline project, and the heavy sands mining projects), buoyant exports are expected to help narrow the current account deficit in 2002 and 2003.

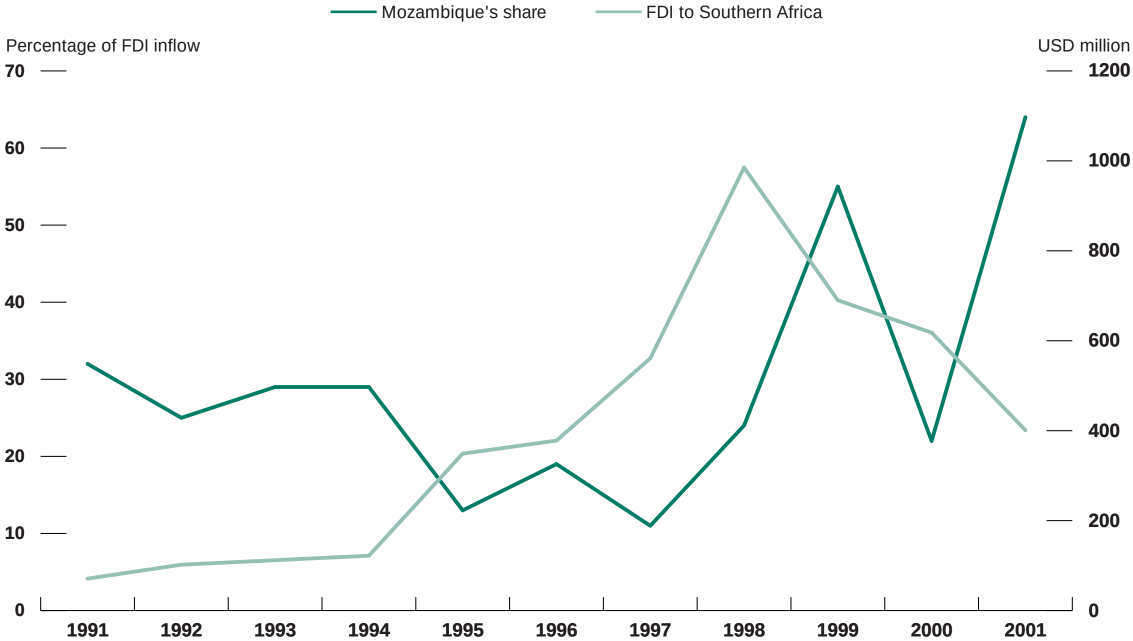
FDI is booming and has come to play a central role in Mozambique since the mid-1990s. The privatisation of firms in the tourism, industry and banking sectors largely characterised the FDI until

Table 3 - Current Account Balance (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Trade balance	-23.6	-22.9	-20.8	-12.6	-11.3	-8.2
Exports of goods (f.o.b.)	7.4	7.1	9.5	21.4	22.4	24.2
Imports of goods (f.o.b.)	-31.0	-30.1	-30.3	-34.0	-33.7	-32.4
Services[a]	-5.3	-5.9	-5.6	-11.0		
Factor income[a]	0.0	0.0	0.0	0.0		
Current transfers	14.5	10.9	14.8	14.3		
Current account balance	**-20.7**	**-18.0**	**-11.7**	**-9.4**		

a: Factor income is included in services.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 6 - Mozambique's Share of FDI Inflows in Southern Africa[a]



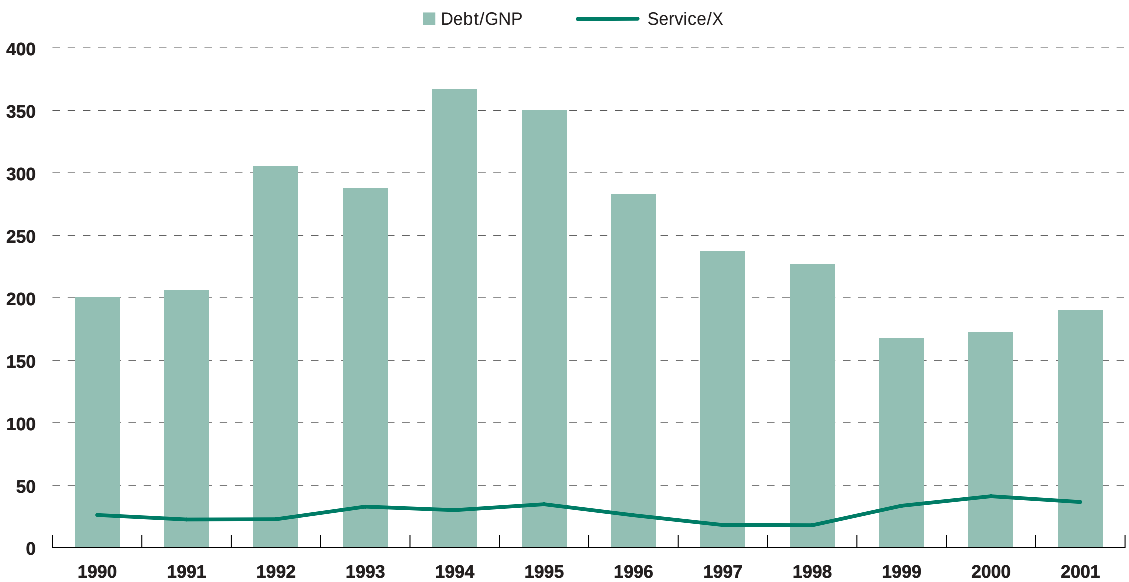
a. FDI in Botswana, Mauritius, Mozambique, Zambia, Zimbabwe.
Source: UNCTAD (2002), World Investment Report.

1996. Since then, FDI has been mainly directed towards the exploitation of natural resources, and large scale/capital-intensive projects have started. Several reasons make Mozambique attractive for investors, including: tax exemptions and fiscal incentives; liberal policies on the remittance of profits and dividends; low energy prices; and extensive hydroelectric and gas resources. According to UNCTAD's World Investment's Report 2002, the building of the Mozal mega project and its expansion has placed Mozambique in sixth place in the ranking of FDI recipients in Sub Saharan Africa, behind South Africa, Angola, Nigeria, Sudan and Côte d'Ivoire.

In 2001, 129 projects were approved, totalling approximately $2.5 billion, which corresponds to an actual rate of project approval of 82 per cent against 68 per cent in 2000. According to the Investment Promotion Centre (CPI) estimates, if all these investments are implemented, around 15 000 jobs will be created. The bulk of the projects are in industry (46 per cent) and tourism (40 per cent). The traditional countries of origin of FDI are South Africa, Portugal and the United Kingdom. More recently also Japan, Mauritius, Italy, Hong Kong, and China have started investing in big projects in the banking and manufacturing sectors. More than half of total investments are concentrated in the Maputo area where the proximity to government offices and the presence of the Investment Promotion Centre facilitate investors in obtaining all the required official approvals for establishing and operating business.

External assistance has been crucial so far in balancing the current account deficit and more broadly in overcoming the humanitarian crisis of the 1990s and early 2000s. As a corollary of hefty external assistance during the 1980s, Mozambique accumulated a large external debt which reached the impressive level of 352.2 per cent of GNP in 1994 (in face value). Since 1987, there has been a series of debt negotiations and rescheduling with international donors, notably the IMF and World Bank and the Paris Club official bilateral creditors. In the 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 nominal terms). Moreover, the country has received additional debt relief under the Enhanced HIPC Initiative (launched in 1999) for which it reached the completion point in September 2001 (the third country after Bolivia and Uganda). Following these developments, Mozambique received further debt relief from the Paris Club of bilateral creditors on 17 November 2001. Total debt relief in 2001 has been about $482 million and a similar magnitude is programmed for 2002. Adding to previous relief operations, this has moved Mozambique's external debt from $8.3 billion in 1998 to $6.03 billion in December 2001.

Figure 7 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank.

Structural Issues

Recently, Mozambique has embraced a vast programme of structural reforms addressing privatisation, financial sector development and public sector reform.

The privatisation programme began in 1989, with the approval of the first legislation regulating the administrative procedures for the sales of state-owned enterprises (SOEs) through public tenders. A Technical Unit for Enterprise Restructuring (UTRE) was established in 1991, with the function of co-ordinating the restructuring of medium- large-sized enterprises. Small- and medium-sized companies had a National Valuation Sales Commission within each sectoral ministry charged with overseeing their restructuring.

By the end of 1997, 840 out of 1 248 SOEs were privatised in all sectors of the economy, of which over 90 per cent were mainly small- and medium-sized enterprises acquired by Mozambican nationals. With regard to the sales completed by UTRE – medium- to large-sized enterprises – approximately 50 per cent of the equity was bought by foreigners, namely from Portugal, South Africa, the United States and Mauritius.

By mid-2002, 20 large and 200 small SOEs remained to be privatised mostly in the transport and communication sectors. While the privatisation process of Telecommunication of Mozambique (TDM), the fixed-line operator, is still in its infancy, tenders for a mobile phone service to compete with the existing parastatals company, MCel, have been recently called. In June 2002, the majority South African owned Vodacom Mozambique was awarded the $15 million licence to set up the country's second mobile telephone network. In the transport sector, although the domestic airline market was liberalised in May, the national airline is still state owned owing to the industry specific crisis and lack of acceptable bids. The Mozambique Ports and Railways Company (CFM) is in the process of being privatised and some ports, port services and railways have been successfully deregulated. The divestiture of the remaining SOEs will be carried out by the recently constituted Institute for Management of State Shares (IGEP) which will replace the outgoing UTRE.

The privatisation process in Mozambique was first of all mainly driven by the necessity to reduce the drain on the government budget by loss-making SOEs. Many SOEs were already under performing and highly inefficient when they were sold and in several cases the new owners did not manage to reverse the situation.

Although it is difficult to gauge the impact of privatisation since there was no agency appointed to monitor the performance of the former SOEs, there is evidence that during the process many companies encountered serious financial difficulties (70 per cent in the public work sector) and many of them went bankrupt (40 per cent in public work). However, in some sectors, such as cement, beer, tobacco and sugar, privatisation led to an overall improvement in their performance based on increases in sales and production levels.

There is therefore a mixed feeling about the impact of privatisation in Mozambique. It is, however, certain that the privatised companies were constrained by a series of bottlenecks in terms of regulatory framework, access to credit and managerial capabilities. It was only in 1997 that the privatisation legislation of 1989 was modified in order to provide support to national entrepreneurs namely, extending the terms of payments up to ten years, applying a more favourable interest rate and giving owners the possibility of mortgaging up to 60 per cent of the value of the acquired assets before all the payments had been made. However, the bulk of privatisation took place before the introduction of such guarantees and before the development of capital markets and institutions well tuned to serve the industry.

Even now, although financial services have been expanding in recent years mainly through greater foreign involvement, many firms face enormous difficulties in borrowing working capital owing to the high interest rates. Only firms with relatively easy access to capital in other markets, such as South Africa, can overcome the high cost of capital. Thus, the financial policy environment seems to be tilted towards foreign investors rather than towards national entrepreneurs. Given that the vast majority of privatised SMEs were acquired by nationals, a financial policy biased against nationals is bound to hit more heavily this segment of the firms, as they are the least capable of resorting to foreign markets for financing.

Another major constraint to the development of national enterprises is the lack of managerial capabilities.

Over the years, some programmes providing technical training and financial assistance have been launched to involve more Mozambican investors in the privatisation process and improve the competitiveness of the privately-owned Mozambican firms. Among them, the Fund to Support Economic Rehabilitation (FARE), implemented in 1996, used some of the proceeds from privatisation to provide loans to micro-enterprises. However, the impact of this programme has been very limited. More recently, the Ministry of Industry and Trade and the World Bank have launched another project for the development of national enterprises (PoDE). It identifies two main areas of assistance: technical and financial. While the technical assistance component, which is funded on a 50 per cent cost-sharing basis by the government and the company involved, has brought positive result so far, the credit line to small and medium enterprises is not working well because it lacks guarantee schemes and the commercial interest rates applied are too high.

In order to help overcome these barriers to investment, a donor directly implemented a programme of concessional loans to private entrepreneurs to help them rebuild their production facilities after they were severely damaged by the 2000 floods. Under this scheme, the metical equivalent of $22 million has been channelled through the commercial banking sector to flood affected enterprises. Families and private businessman received support on concessional terms (8-10 per cent interest rate compared to the commercial rates of 34-36 per cent) to re-establish their economic base and to start producing for the market again. The commercial risk is shared 50/50 between the donor agency and the banks. The implementation of such a credit scheme started in mid-2000 and the evaluation of the project reveals that many enterprises that benefited from this credit scheme have now re-established themselves, and the repayments of the loans are on track.

In the financial sector, the solvency problems of two banks – BCM and *Banco Austral* (BA) – which represented more than half of the entire banking sector, 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 — was re-capitalised and the restructuring plan apparently completed in March 2001. In October 2001, BCM was merged with the International Bank of Mozambique (BIM). The major shareholder in both banks was the Portuguese Commercial Bank (BCP), the largest financial institution in Portugal. The new bank takes the name BIM and enjoys an absolutely dominant position in the market, with 48 per cent of total bank credit and 52 per cent of total deposits.

Banco Austral, the country's third largest bank, was taken back to entire state ownership after private investors refused to re-capitalise the bank and handed back their shares in April 2001 to the government. In late October 2001, the government reached an agreement for the purchase of BA with Amalgamated Banks of South Africa (ABSA). The two parties are reported to have agreed a final sale price of $10 million for an 80 per cent share of the Bank and the remainder is to be held by the government. The bank started operations again in January 2002. The central issue remains what arrangements will be made for the bank's loan portfolio. A very tight restructuring plan has been agreed between ABSA and the Ministry of Planning and Finance (MPF). The parties have agreed that all non-performing loans considered unrecoverable by ABSA should be transferred to the Treasury. Moreover, the authorities are committed to including the results of the loan recovery effort in published quarterly budget execution reports and are willing to launch an investigation into the causes of the banks' difficulties.

Since the soundness of the domestic financial system relies mainly on the health of BIM and BA which account for two-thirds of the assets, the central bank has already taken some steps to strengthen monetary supervision. In particular, in April 2002, it changed the frequency of the commercial banks' reporting on compliance with capital adequacy requirements from semi-annual to monthly.

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). In both the country's multi-party elections, held in 1994 and 1999, FRELIMO won a majority of parliamentary and presidential votes. Nevertheless, in the 1999 elections, 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.

In 2001 – from 29 October to 1 November – RENAMO held its fourth party congress, the first since the end of the war in 1992. Afonso Dhlakama consolidated his control over the party since his two opponents received only 5 per cent of the votes. The congress symbolised the shift of the party from a military structure to a civilian one. Nonetheless, the process still needs to be completed: the party is still strongly dominated by its leader and its administration and organisation has to be consolidated. In June 2002, FRELIMO also held its eighth party congress. The congress led to the election of a new central committee and political commission. Armando Guebuza, until then the head of parliamentary group, has been selected as the party's new secretary general, and the party's candidate for the 2004 presidential elections, since Mr Joaquim Alberto Chissano, president since 1986, has already announced that he will not stand. Armando Guebuza is seen by his supporters as a leader who will fight against the corruption climate that characterised Mr Chissano's presidency. However, he is very unpopular in large parts of the country where he was involved in human rights abuses during the decolonisation years of 1975-77 and the early 1980s. Moreover, his extensive business interests raise concerns over their origin and potential conflict of interests if and when he comes to power.

Municipal elections are due to take place in 2003 and national elections, both presidential and parliamentary, are due in 2004. Preparation for these elections is delayed owing to the disagreement over the reform of electoral legislation. A consensus appears to have been reached on both fronts during the September 2002 extraordinary sitting of the Assembly of the Republic.

In 2001, the government and civil society embarked on a vision design exercise for the future over the next 25 years: the Agenda 2025. The practical steps towards this exercise were facilitated by the establishment of an advisory board which then set a programme of activities that has led to public debates and the establishment of thematic working groups to reflect and develop alternative development options. The exercise – which is seen as an important tool to set commonly shared long-term goals and strategies for the country's development – could represent a remarkable opportunity to improve collaboration between all political actors since all major wings are involved in the definition of the agenda.

Mozambique's international reputation as a hallmark of an emerging democracy has however been tainted by recent events. The crisis of the banking sector has disclosed the rising official corruption and the related issues of the enforcement of the rule of law. In spite of the programmed reforms, the judicial system is still very weak and the degree of independence from the political sphere needs to be improved. The murder of Carlos Cardoso, a respected investigative journalist, during his investigation into cases of corruption and financial fraud and of Antonio Siba Siba Macuacua, interim chairman of the *Banco Austral* in August 2001 raise concerns about the degree to which criminals may have succeeded in capturing important segments of the government and judicial state apparatus. These perceptions have been deepened even more by the escape from jail of one of the six people held in a maximum security prison for Cardoso's murder in September 2002, just a few weeks before the trial of all the accused was due to take place and raise concerns about the issue of corruption. The ensuing events, including the naming during a court hearing of names linking the President's son to events that led to the murder of Cardoso, casts a dark shadow on the otherwise remarkable achievements that the authorities and the people of Mozambique have recorded in rehabilitating their livelihoods and the economy as a whole, after a long period of destructive conflict.

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 170 out of 173 countries and 69.4 per cent of the country's population live below the national poverty line ($ 0.40 per day). The country is characterised by a highly unequal distribution of income with the Maputo city per capita GDP ($1068) six times higher than the national average and 12 times higher than the figures in the Zambesia provinces (northern region), where 20 per cent of the population lives. 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.

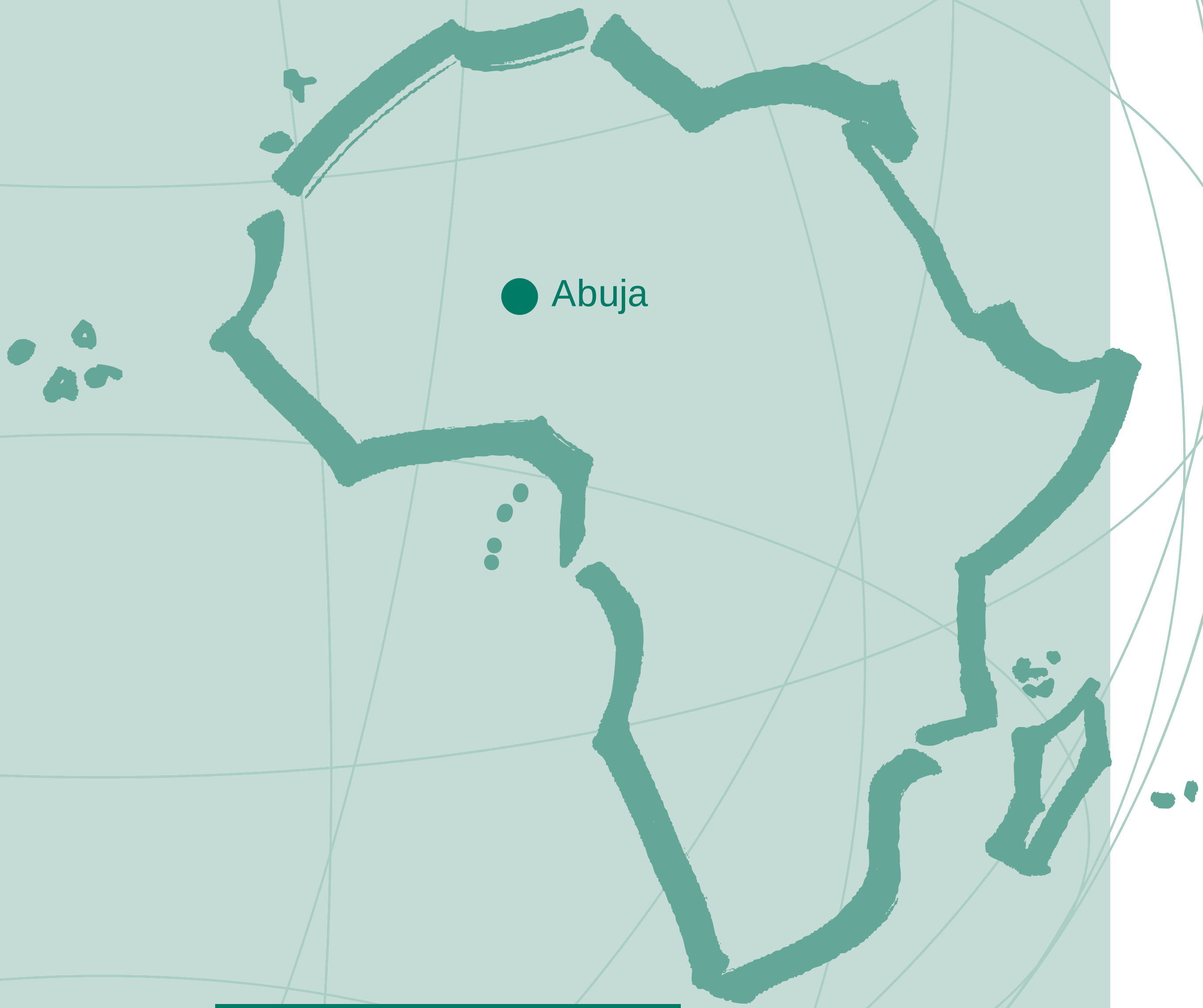
Poverty in Mozambique tends to be assimilated to high household dependency rates, low levels of education (particularly in rural areas and among women), limited access to basic health services, and to infrastructural bottlenecks, principally in rural areas, as demonstrated by the problems of physical access to markets for the provisioning of food during the drought that affected the country in the first half of 2002.

The government has put the eradication of poverty at the top of its agenda since at least 1995 and with the introduction of Action Plan for the Reduction of Absolute Poverty (*Plano de Acção para a Redução da Pobreza Absoluta* — PARPA) finalised in April 2001, the overall objective of reducing the incidence of absolute poverty by about 30 per cent in ten years – from 70 per cent to less than 50 per cent by 2010 – has become the key national priority. In order to achieve this goal, the government is pursuing actions and policies aimed at promoting a sustainable expansion concentrating in sectors with the broadest impact on the poor including agriculture, transportation and commerce.

Regarding health, despite improvements, the indicators in Mozambique are among the worst in the world. According to the UNDP Human Development Report 2002, life expectancy has been estimated at 40.6 over 1995-2000 compared to 42.5 over the years 1970-75. The infant mortality rate in 2000 was 126 per 1000 births while the under-5 mortality rate is 200 per 1000 births (compared to 163 and 278 in 1970, respectively). Regional disparities are striking as an average gap of 21 years in life expectancy between Zambezia and Maputo city clearly shows. The epidemiological profile of Mozambique reveals that amongst children aged under-5, the major causes of death are malaria, diarrhoea and acute respiratory infections. For the adult population, the major causes of illness and death are tuberculosis and malaria. In this scenario, as for the rest of Southern Africa, the spread of HIV/AIDS is large. UNAIDS estimated that 13.2 per cent of the population was living with HIV/AIDS in 2000. A new assessment by the Ministry of Health, in 2001, gives a lower infection rate – equal to 12.2 per cent – due to the availability of new data from the more isolated provinces in the North, where infection rates are lower than expected. Nonetheless, in a study published in 2001, life expectancy including the impact of HIV/AIDS is estimated to decrease to 35.9 years in 2010 compared to an increase of life expectancy up to 50 years over the same period without the inclusion of HIV/AIDS. The impact of HIV/AIDS on the economy may be particularly severe in Mozambique since it affects a small pool of people with technical, managerial and administrative skills. Studies carried out by the IMF and the World Bank indicate that if the government does not react to the pandemic, the overall impact of HIV/AIDS on the growth rate will increase over time, ranging from about 1 per cent in 2004 to about 4 per cent difference in 2010, compared with no Aids scenario. Moreover, another study on the education sector estimated that the costs of education will rise by 6.9 per cent due to HIV/AIDS, just to keep the system at the same level of service delivery as in 2000. In general, the government's Health Sector Recovery Program (HSRP) has markedly improved the quality of services and access, and delivery and quality of health services have all been enhanced since 1995 as the rehabilitation or construction of 300 primary health care facilities clearly shows. However, the impact of HIV/AIDS could hamper the recent progress in the provision of health services: although the care of the vast majority of Aids patients is provided by their home communities, the care of those patients is overwhelming health services both in terms of the number of beds occupied and in the high cost of treatment.

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 access to schooling amongst the different provinces and between boys and girls. The net enrolment rate is 60 per cent in primary school (49 per cent for girls) and it drops dramatically to below 2 per cent in secondary school. Low quality of teaching and the nature of the secondary school curricula, very academic and encyclopaedic, have been often advocated as two of the main reasons for such large drops in the attainment level. In addition, high repetition rates mean that to graduate from primary school it takes more than twice the normal five years duration. 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. In 2002, the Ministry of Education has started a pilot project to introduce a major change in the teaching methods through the implementation of new curricula in 22 primary schools with the aim of applying the new curricula at national level by 2004.

Nigeria



key figures

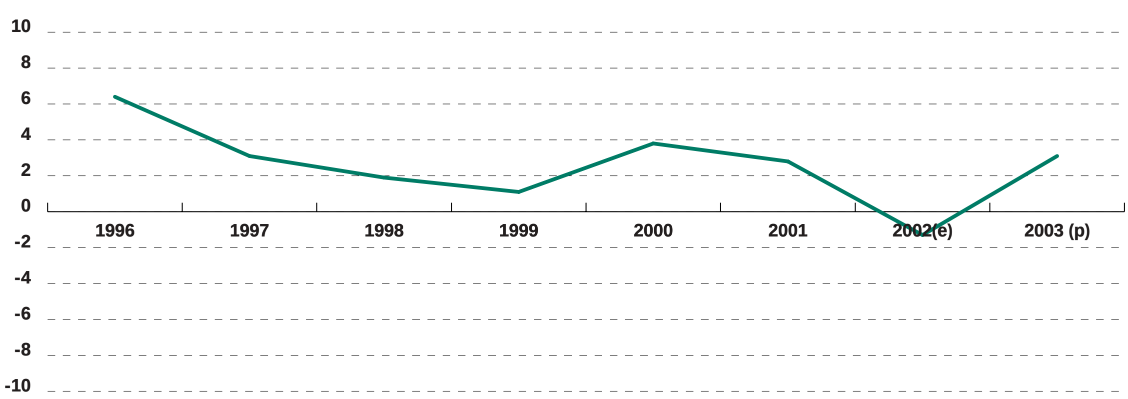
• Land area, thousands of km²	924
• Population, thousands (2001)	116 929
• GDP per capita, $ (2001)	362
• Life expectancy (2000-2005)	52.1
• Illiteracy rate (2001)	34.7

Nigeria

NIGERIA'S ECONOMIC PERFORMANCE remains mixed. The economy maintained a moderate rate of growth of real GDP, which reached 3.9 per cent in 2001, from the yearly average of 3.3 per cent since 1995. The outlook on growth remains mixed. Real GDP is estimated to decline by about 1.3 per cent in 2002, following which the economy is projected to resume positive growth at 3.1 per cent in 2003. The growth performance in 2001 was achieved in an atmosphere of weakening economic fundamentals: inflationary pressures were exacerbated, interest rates rose and the foreign exchange rate of the naira depreciated sharply. The government's fiscal position deteriorated sharply in 2001 as expenditure increases were met with reduced revenues. The government's effort to reduce expenditure is made difficult by Nigeria's fiscal federalism. In spite of increased expenditures the key social services that bear directly on poverty alleviation have not seen significant improvement. Nigeria's public finances are expected to improve with an estimated contraction in the overall balance in 2002 with further improvement in 2003. The government's expansionary fiscal operations in 2001 induced monetary expansion that intensified inflationary pressure and contributed to rising interest rates and depreciation of the naira. Inflation is however expected to come down in 2002 and 2003 as the fiscal position improves. The external

Revenue shortfall and renewed external pressures contributed to the suspension of Nigeria's payments on its external debt.

Figure 1 - Real GDP Growth



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

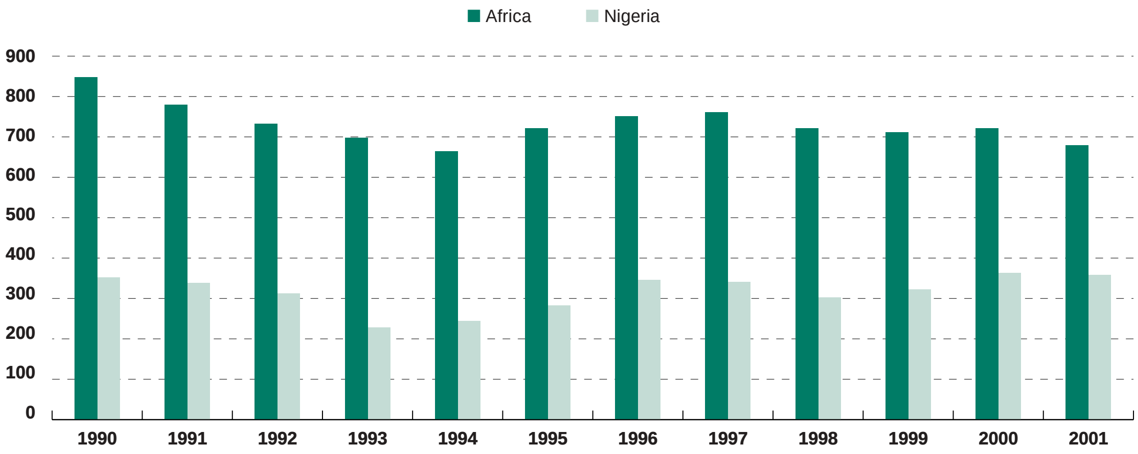
sector experienced renewed pressure in 2001 as the excessive dependence on imports caused a sharp fall in the trade balance. The difficulty in the external sector precipitated in Nigeria suspending payments on some of its external debt in August 2002. The outlook on the external sector is mixed; the trade surplus is estimated to fall in 2002 and to increase significantly in 2003. Nigeria's economic recovery continues to be hampered by structural bottlenecks in the economy. The attempt to restructure the economy through privatisation is currently at a snail's pace. Nigeria's phase-1 privatisation programme (1988-93) was deemed successful with measurable benefits to the economy. However, since the re-launch of the programme from 1999, progress has been extremely slow. At the start of 2002, the government still had some 117 enterprises to privatise in a programme expected to be completed in 2003. The privatisation programme faces serious opposition from both houses of the Nigerian parliament. Nigeria is moving towards elections in early 2003 and the political situation has become highly charged. However, in the midst of political tension, communal, ethnic and religious violence the country's democracy does not appear threatened.

Recent Economic Developments

The performance of the Nigerian economy was mixed in 2001. The economy maintained its moderate rate of growth with real GDP growth of 3.9 per cent compared with 3.8 per cent in 2000 and the yearly average of 3.3 per cent achieved during the 1995-99 period. The economic expansion in 2001 was, however, achieved in an atmosphere of weakening economic fundamentals as inflationary pressure was exacerbated, interest rates trended upwards, the naira depreciated in all segments of the foreign exchange market, and the external sector experienced renewed pressure.

The moderate growth in total output in 2001 was reflected in all the major sectors of the economy. Agricultural output rose by 3.7 per cent in 2001 compared with 3.1 per cent in 2000 with the sector contributing 29.3 per cent of GDP in 2001. All the sub-sectors contributed to the agricultural expansion in 2001. The output of staples rose by 3.5 per cent in 2001 compared with 3 per cent in 2000 with all the major staples such as maize, cassava, millet and sorghum, recording output increases. Cash crop production expanded by 3.4 per cent in 2001 from 3.3 per cent in 2000 due largely to improvements in demand and market prices. The output of cotton, soya bean and palm oil as well as coffee, rubber and cocoa increased in 2001. The modest increase in agricultural production in 2001 was attributed mainly to favourable weather conditions. Other factors that contributed to the improved agricultural output in 2001 included the supply of high-yielding and disease-resistant seeds, low incidence of pests and diseases, improved post-harvest handling, as well as continued intensification of off-farm research efforts by research institutions. At the same time, Nigeria faces difficulties in achieving the annual agricultural growth target of 5.8 per cent set in the 2000-2003 National Rolling Plan. The expansion of agricultural output continues to be hindered by major constraints including shortages in the supply of fertilizer. In 2001, for example, there was major shortage of fertilizer. The total quantity of fertilizer available for distribution during the year was 120,000 metric tones, which represented a decline of 60 per cent on the level distributed in 2000. The main reason was that locally produced fertilizer was virtually non-existent in 2001, owing to the continued shut-down of the National Fertilizer Company of Nigeria (NAFCO), which accounts for over 85 per cent of total local production. The shortfall in the supply of fertilizers and the inefficiencies of distribution make the commodity inaccessible to many farmers.

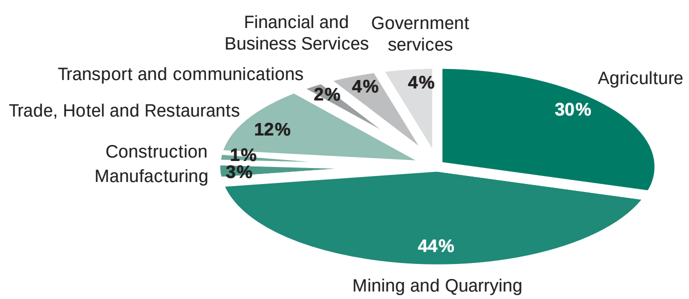
Figure 2 - GDP Per Capita in Nigeria and in Africa (current $)



Source: Authors' estimates based on IMF data.

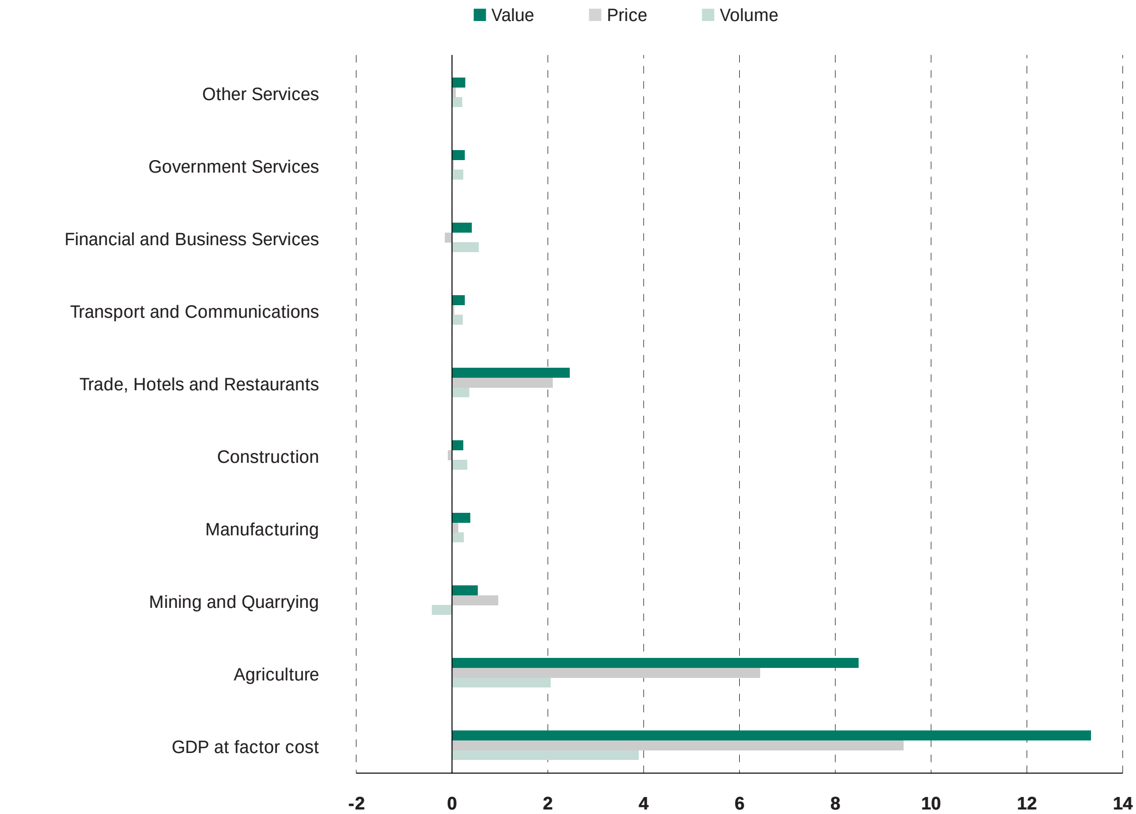
The industrial sector was responsible for 45.8 per cent of GDP in 2001. Industrial output rose by 3.3 per cent in 2001 substantially below the 7.6 per cent rate of increase in the previous year. The main activity that increased significantly was electricity generation that expanded by 22.3 per cent in 2001 compared with the decline of 6.5 per cent in the previous year. The improvement was attributed largely to the rehabilitation of some generating equipment and higher utilisation of existing capacities. The manufacturing sub-sector recorded modest improvement as manufacturing production rose by 2.9 per cent, compared with the increase of 0.4 per cent in 2000. In general, the expansion in manufacturing was due largely to improved supply of inputs, especially the restoration of normal supply of petroleum products, a moderate improvement in electricity supply, the introduction of comprehensive inspection of imports at the ports, which forced importers of finished goods to pay appropriate duties, thereby increasing slightly, the competitiveness of local manufactures. The improvement in manufacturing in 2001 was corroborated by a CBN survey on capacity utilisation which showed an average capacity utilisation rate rising from 36.1 per cent in 2000 to 39.6 per cent in 2001. At the same time, manufacturing expansion in Nigeria continues to be generally impaired by low effective demand for locally made goods, occasioned by the continued influx of cheaper and better quality, imported products, especially from South East Asia; and the poor state of social and economic infrastructure, including power and water supply. Also, the manufacturing sector has suffered from reduced capacity, which has seen, for example, the number of textile industries in the country fall to just 40 in 2002, a quarter of the number in the mid-1980s. This situation has prompted the government to ban the importation of all printed fabrics in order to protect the ailing textile industry. The performance of the mining sector was subdued in 2001, as the upward trend in output observed in 2000 was slowed in 2001. Mining production rose by only 0.4 per cent in 2001, compared with the expansion of 14.9 per cent in the previous year. The sluggish growth of the mining sub-sector in 2001 was due largely to the slow increase in crude petroleum production, which accounts for about 98.7 per cent of the total output of the mining sub-sector. Crude oil production increased by only 0.4 per cent in 2001, compared with 7.1 per cent in the preceding year, reflecting compliance with OPEC output quota cuts. The OPEC quota for Nigeria was reviewed downwards to 2 075, 1 993, and 1 911 mbd in February, April and September 2001 respectively. This downward trend in Nigeria's OPEC quota has continued since the start of 2002 with the level down to 1.787 from January. However, Nigeria's crude oil production, according to data from the International Energy Agency, was 2.17 million b/d in October 2001 and 2.08 million b/d in November 2001; the Nigerian authorities put crude oil output for December 2001 at 1 992 million b/d. These output levels were well above the OPEC quota, which gives credence to the view that Nigeria is the worst OPEC offender in exceeding its quota. At the same time, it was hard to imagine Nigeria reducing output substantially as the reduced quota coincided with reduced oil prices. The spot price of Nigeria's reference crude, the Bonny Light (370 API), averaged $24.53 a barrel in 2001, representing a fall of 14.1 per cent when compared with the level of 2000. Besides, in 2001 the Nigeria National Petroleum Corporation (NNPC) began crude oil production from the Okono field, marking the beginning of Nigeria's own production of offshore oil. The second field, Okpoho, is expected to start production by mid-2003.

Figure 3 - GDP by Sector in 2001



Source: Authors' estimates based on IMF data.

Figure 4 - Sectoral Contribution to GDP Growth 2001



Source: Authors' estimates based on IMF data.

The share of the services sector in total GDP remained at 24.8 per cent in 2001. The sector grew by 4.8 per cent compared with 3.4 per cent in 2000. Distributive trade (wholesale and retail) accounted for about 11.7 per cent of GDP and grew by 2.9 per cent, while building and construction accounted for 2.3 per cent of GDP with a growth rate of about 15.3 per cent. The building and construction sector gained from activities of the federal and state governments in road and bridges construction and maintenance, rehabilitation and refurbishment of sea and airports, as capital spending of the federal and state governments increased. Some of the major activities included the commencement of the reconstruction of the domestic terminal at the Murtala Muhammed Airport on a build, operate and transfer system, and maintenance work at the Abuja international airport. Other major construction activities were the rehabilitation and ancillary works at the Apapa Port Complex, the Lily Pond Container Terminal and the Port Harcourt Bitumen Jetty. Improvements in telecommunications received a boost in 2001 with the deregulation of the sub-sector. The Nigeria Communication Commission (NCC) licensed two private operators in addition to NITEL to operate the Global System of Mobile (GSM) telecommunications in 2001. Of the three licenses, two of the operators commenced operation during the year and by end-2001, about 300 000 cell phones had been rolled out, bringing the total operational telephone lines available in Nigeria to 726 500 or a tele-density of about 1:165, an improvement on the ratio of 1:284 in 2000.

The demand composition of GDP in 2001 shows that the government increased its participation in economic activity — in both consumption and investment. The public's share of gross capital formation increased significantly as the government finally bowed to the politically unsustainable situation of the recent fall in public investment. Public consumption also increased to record levels in 2001. The downside to these

Table 1 - Demand Composition (percentage of GDP)	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**16.3**	**24.9**	**18.7**	**20.7**	**22.3**	**21.9**
Public	5.3	10.0	9.6	12.6	13.4	13.2
Private	11.1	14.9	9.1	8.1	8.9	8.8
Total Consumption	**83.0**	**74.7**	**66.3**	**73.4**	**73.4**	**70.1**
Public	7.3	12.8	20.1	24.0	24.2	23.5
Private	75.7	61.9	46.2	49.3	49.2	46.6
External sector	**0.7**	**0.4**	**15.0**	**5.9**	**4.2**	**7.9**
Exports	44.3	35.5	51.4	46.9	46.6	48.5
Imports	-43.6	-35.1	-36.4	-41.0	-42.4	-40.6

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

developments is that Nigeria financed these activities with the oil windfall in 2000, raising doubts about their sustainability without further windfalls from the oil sector. However, given the difficulty of reducing public consumption in Nigeria, the government may be forced to resort to measures detrimental to the health of the economy to sustain consumption levels. The outlook on the demand structure is the government maintaining increased public investment as public consumption moderates in 2002 and 2003.

Macroeconomic Policy

Fiscal and Monetary Policy

The Nigerian government's fiscal activities underscore the country's dependence on the oil sector. In 2001, although the government's total revenue increased, an even larger increase in total expenditure resulted in the overall fiscal balance deteriorating from the surplus of 2.6 per cent of GDP in 2000 to a deficit of 3.1 per cent of GDP. The primary balance also fell from 10 per cent of GDP in 2000 to 5.2 per cent of GDP in 2001.

In 2001, the government's total revenue increased to 48.8 per cent of GDP from 45.9 per cent of GDP the previous year. Revenue from the oil sector rose by 7.3 per cent in 2001, to constitute 76.5 per cent of total revenue. The rise in oil revenue reflected largely the rise in crude oil price above the budget benchmark of $22.00 per barrel (the spot price of Nigeria's reference crude, the Bonny Light (370 API), averaged $24.53 a barrel in 2001). Revenue from non-oil sources also grew substantially by 66.6 per cent in 2001 compared with the increase of 39.9 per cent in 2000. The company income tax component of non-oil revenue increased by 34.4 per cent while customs and excise duties and VAT increased by 68.1 and 56.9 per cent respectively. The sharp rise in non-oil revenue in 2001 reflected higher receipts from import duties following the government's policy during the year of a comprehensive (100 per cent) import inspection scheme. The government confirmed in the 2002 budget that pre-shipment inspection would stop in June 2002 while destination inspection would commence in July 2002. Also, the opening of additional VAT offices during the year contributed to the improved revenue performance. On the expenditure side, total expenditure as a proportion of GDP rose from 43.3 per cent in 2000 to 51.9 per cent in 2001. The higher levels of expenditure in 2001 reflected both increases in current and capital expenditure. The rise in recurrent expenditure in 2001 reflected the effect of increased overhead costs and debt service payment. Capital expenditure rose on account of increased expenditure in "priority" projects in the economic sector, including roads, water supply power and steel.

The federal government undertook at the start of 2001 to bring its expenditure under control through the elimination of waste and corruption. However, its efforts were made difficult by Nigeria's fiscal federalism. In particular, lack of transparency and lack of fiscal accountability at the lower levels of government continued to lead to indiscipline in the management of resources. In the face of the deterioration in the fiscal account, the policy challenge for 2002/03 was how to address the effects of fiscal federalism, which continues to exacerbate the problem of excess liquidity with adverse implications for domestic price, exchange and interest rate. However, the 2002 budget made high expenditure outlays, based on an optimistic future direction of oil prices. The expenditure outlays were also based on two other sources: first, revenue from privatisation, which was unreliable given the government's own record of carrying out its programme; and second, repatriation of assets expropriated by the previous military regime, which had been difficult to assess and locate. The budget was by the second half of the year facing problems of non-implementation with implications for Nigeria's external obligations. The outlook on the public finances is moderation. Total revenue is estimated to retain a 48.1 per cent share in GDP in 2002 with total expenditure also maintaining a 51.8 per cent share. In 2003, revenue is projected to increase significantly leading to further improvement in the overall budget situation.

The primary objective of Nigeria's monetary policy, which is the achievement of price and exchange rate stability, was maintained in 2001. However, in 2001, the environment for the conduct of monetary policy was largely un-conducive, following the continued expansionary fiscal operations of the government that resulted in large injections of liquidity into the economy, and induced rapid monetary growth and intensified inflationary pressures. The resulting macroeconomic imbalances in the system were responsible, in part, for the collapse of Nigeria's stand-by accord with the IMF in October 2001, although technically the accord was said to have collapsed owing to the government's failure to satisfy performance criteria, especially those relating to fiscal targets.

The growth of monetary aggregates in 2001 exceeded the government's targets by wide margins. Broad money (M2) expanded by 27 per cent (as against the stipulated target of 12.2 per cent). The expansion in M2 reflected growth in both narrow money (M1) and quasi money. M1 expanded by 28.1 per cent (as against the 4.3 per cent stipulated target) driven by

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants[a]	**22.5**	**29.7**	**45.9**	**48.8**	**48.1**	**49.7**
Taxes	9.2	9.6	15.0	18.5	18.4	18.5
Other tax revenues	2.9	2.1	7.8	8.7	8.5	9.0
Total expenditure and net lending[a]	**18.3**	**37.0**	**43.3**	**51.9**	**51.8**	**48.2**
Current Expenditure	7.6	17.6	16.3	17.3	16.9	15.6
Excluding interest	*3.9*	*9.6*	*8.9*	*9.0*	*9.1*	*8.8*
Wages and salaries	1.6	4.1	6.6	6.1	5.9	5.7
Interest payments	3.7	8.0	7.4	8.3	7.8	6.8
Capital expenditure	5.3	10.8	11.8	18.2	19.4	19.0
Primary balance	**7.8**	**0.8**	**10.0**	**5.2**	**4.2**	**8.3**
Overall balance	**4.2**	**-7.3**	**2.6**	**-3.1**	**-3.6**	**1.5**

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

increases in bank credit to the domestic economy and net foreign assets of the banking system following the continued monetisation of the excess crude oil proceeds. Aggregate bank credit to the domestic economy rose significantly by 75.8 per cent (compared with the 15.8 per cent target for the year) reflecting the growth in credit to both the government and the private sector, with credit to the private sector constituting 72.4 per cent of the total, while 27.6 per cent went to the public sector. The expansion in credit to the government resulted from the fiscal deficit financed by the CBN, while the expansion to the private sector reflected the persistent demand pressure in the foreign exchange market during the year.

In the attempt to curb the fiscal surfeit, the CBN pursued several actions including the progressive increases in the minimum rediscount rate (MRR) by 650 basis points between January and September of 2001, the upward review of the cash reserve requirement and the liquidity ratio of saving banks from 10 and 35 per cent respectively to 12.5 and 40 per cent respectively. The CBN also introduced its own intervention instrument, the CBN Certificate, to complement the traditional treasury bills in addressing the problem of liquidity in the banking system.

In spite of the measures at controlling monetary expansion, the modest inflationary pressures that Nigeria had witnessed in the previous four years intensified in 2001. The rate of inflation rose to 18.9 per cent in 2001 from 6.9 per cent in 2000. Other factors that contributed to the sharp rise in inflation in 2001 included depreciation of the exchange rate of the naira, inadequate power supply, weak infrastructural facilities and a rising interest rate which resulted in high costs of domestic production. However, inflation is estimated to fall to 13.4 per cent in 2002 and to come down to 11.9 per cent in 2003 with improvements in the fiscal situation.

Interest rates were also influenced by the state of bank liquidity as well as the policy actions aimed at addressing the problem of liquidity overhang. Through its proactive adjustment of the MRR, the CBN maintained a flexible interest rate policy. The treasury bill issue rate rose progressively from 13 per cent in December 2000 to 20.5 per cent in December 2001. Bank deposit and lending rates also generally showed increases: the average rates on time deposits of various maturities maintained an upward movement from a range of 7.9-12.8 per cent in December 2000 to 12.0-18.4 per cent at end-December 2001. Banks' average lending rates exhibited a similar pattern during the year. The average prime and maximum lending rates rose respectively from 21.0 and 25.8 per cent in December 2000 to 26 and 31.2 per cent in December 2001.

Against the background of the daunting environment for the management of monetary policy in 2001, the CBN at the start of 2002, formulated policies to ensure price stability and reverse the upward trend of the inflation rate for 2002/03. Since the beginning of 2002 the CBN has adopted a medium-term perspective monetary policy framework with a two-year period for the new programme, unlike earlier programmes designed for one year. The shift is in recognition of the fact that monetary policy actions affect the ultimate objectives of policy with a substantial lag. The shift is thus expected to free monetary policy implementation from the problem of time inconsistency and minimise over-reaction due to temporary shocks. The main strategy of the CBN policy is to include effective control of anticipated liquidity injections that may arise from excessive government spending during 2002/03 in order to minimise their negative effect on domestic prices and the exchange rate. The primary instrument of policy, however, remains open market operations (OMO), supported by reserve requirements and discount window operations for enhanced effectiveness.

On the foreign exchange market, Nigeria maintains 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 — the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX); the *bureaux de change* rate; and the parallel market rate. In 2001, the exchange rate of the naira depreciated against the US dollar in all segments of the market. At the Inter-Bank Foreign Exchange Market (IFEM) the naira depreciated by about 9.6 per cent during the first part of 2001 and remained relatively stable for the rest of the year. At the other segments of the market, namely the forex bureaux, and the parallel market, the rate of depreciation was sharper as the value of the naira declined by about 10.3 per cent in the year. During 2001, the CBN took steps to ensure orderly transactions in the IFEM following the persistent pressure in the market. These measures included the setting up of a committee to monitor the utilisation of IFEM funds; direct debit of banks' current accounts with the naira equivalent of funds purchased; prohibition of the use of IFEM funds to finance bills for collection approved in 1993 and 1994; and limitation of Business Travel Allowance (BTA) to a maximum of $10 000 per quarter and Personal travel Allowance (PTA) to a maximum of $5 000 per half year.

External Position

Nigeria has maintained progress in liberalising its external environment. Although there are frequent complaints that Nigeria is not fully compliant with its WTO obligations, the country continues to review, in its annual budgets, the customs and excise schedule towards liberalising external trade. 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. Over the 1995-2000 period the customs and excise schedule liberalised external trade by reducing the average import tariff rate from 24 per cent to 12 per cent. In 2001, out of about 5000 lines of tariff code, 70 were increased (by an average of 25 per cent) and 437 were reduced (by an average of about 9 per cent) estimated to have reduced the average import tariff to 11.5 per cent. Similarly, in the 2002 budget the government made several tariff amendments that are expected to reduce further the average import tariff rate: out of 136 lines of tariff codes 35 were increased whilst 131 were reduced. Significantly, a wide range of "luxury" imported food items now attracts 100 per cent duty. These include, margarine, sausages, sugar confectionery, chewing gum, chocolate, pasta, prepared food such as cornflakes, bread, ice cream, beer, wine and spirits. Also, tobacco, or tobacco substitute items such as cigars also attract 100 per cent duty. In 2001 the import prohibitions list included cement in bags, bulk vegetable oil, wheat flour, millet, sorghum, re-treaded and used tyres, mosquito repellent coils, and gaming machines. This list was added to in 2002 with used refrigerators, air conditioners and compressors.

The external sector of Nigeria experienced renewed pressure in 2001 due to a sharp fall in the trade surplus. The fall in the trade surplus was the result of Nigeria's lingering problem of excessive dependence on imports even as export revenues dwindle. The value of Nigeria's exports increased by 8.9 per cent in 2001 to $18.9 billion, with the oil sector accounting for 98.7 per cent of the total. As a share in GDP, exports accounted for 44.5 per cent in 2001, down on the share of 49 per cent the previous year. On the other hand, total imports rose by 31.5 per cent in 2001 to $10.3 billion, representing 31.2 per cent of GDP compared with 26.4 per cent of GDP in 2000. The increase in imports in 2001 reflected increased demand for finished goods and raw materials. Consequently, the trade surplus fell from $10.4 billion (22.7 per cent of GDP) in 2000 to $8.5 billion (13.3 per cent of GDP) in 2001. The reduction in the trade surplus led to the current account balance also falling from 9.5 per cent of GDP in 2000 to 5.2 per cent of GDP in 2001. The outlook on the external sector is a further fall in the trade surplus to an estimated 11.7 per cent of GDP in 2002. The trade surplus is projected to rise significantly in 2003 to 15.1 per cent of GDP, with an increase in exports and moderation in imports.

The external debt stock of Nigeria stood at $28.4 billion at end-December 2001. The distribution of the debt stock showed that the Paris Club accounted for 77.9 per cent, multilateral holdings were 9.9 per cent while the London Club of creditors was owed 7.2 per cent. The balance of 4.6 per cent was owed to promissory note holder and the non-Paris Club bilateral creditors held 0.4 per cent. The main debt

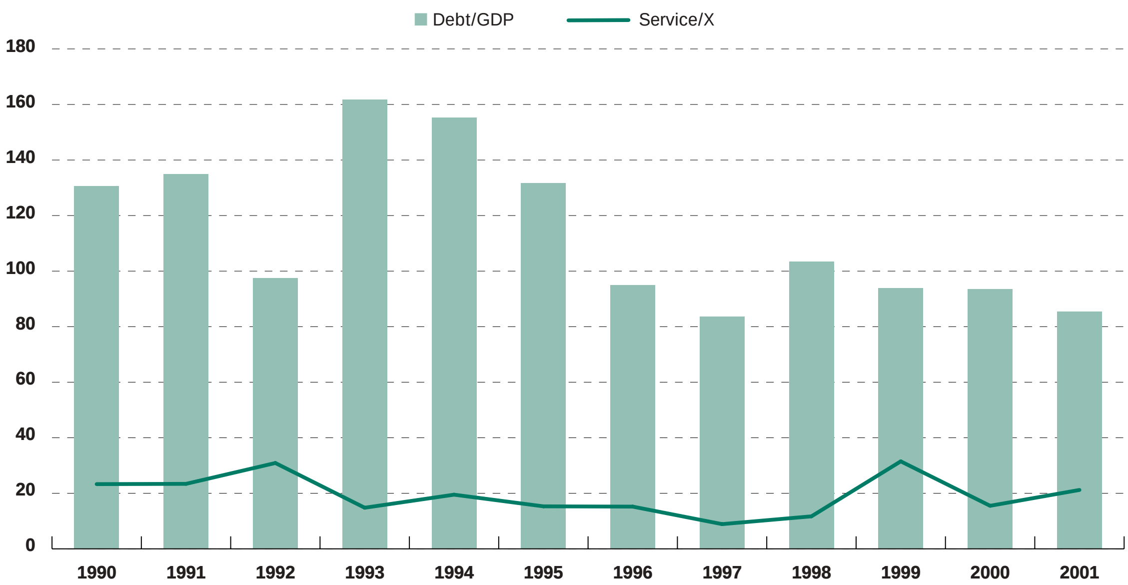
Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade Balance	11.2	7.6	22.7	13.3	11.7	15.1
Exports of goods (f.o.b)	41.7	33.1	49.0	44.5	43.9	45.9
Imports of goods (f.o.b)	-30.6	-25.4	-26.4	-31.2	-32.2	-30.9
Services	-10.5	-7.2	-7.1	-6.4		
Factor income	-7.9	-9.7	-10.2	-6.0		
Current transfers	2.6	4.6	4.2	4.3		
Current account balance	**-4.6**	**-4.7**	**9.5**	**5.2**		

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

management strategy Nigeria followed in 2001 was the Debt Conversion Programme (DCP). In 2001 the number of applications received in the DCP fell to 14 from 20 in the previous year. During 2001 two applications valued at $714.4 million were approved under the DCP. Also, at end-2001 external debt valued at $26.6 million was redeemed under the auction system, while $0.8 million was cancelled under the out-of-auction arrangement. In 2001, Nigeria secured a debt rescheduling deal with the Paris Club. Rescheduling agreements were reached with each Paris Club creditor without a public, collective deal. These agreements were dictated by the fact that Nigeria had made it clear it would not be able to meet its repayment schedule estimated at $2.5 billion to the Paris Club alone in 2002 with the fall in the oil price. To emphasise this point, the 2002 budget allocated only $1.7 billion for debt servicing against an amount of $3.3 billion in scheduled debt repayments. Individual Paris Club creditors consequently entered into rescheduling negotiations with Nigeria to avoid default. Yet, given the serious revenue shortfall that had compromised the implementation of the 2002 budget, Nigeria admitted in August 2002 that it had a debt crisis and could no longer afford to service its external debt. Nigeria backed its decision by blaming plunging oil revenues and the failure of some of its privatisation plans. Consequently, the country suspended payment on some of its debts, the first time it had completely halted payments, as it tried to reschedule payments. The debt suspension was also in response to the sharp fall in Nigeria's external reserves, which in August 2002 had fallen by a fifth since December 2001. It is also arguable that Nigeria was using debt suspension, which has strong domestic appeal to solve domestic political problems as it could not be a mere coincidence that the debt suspension was announced just as President Obasanjo was facing possible impeachment by both houses of Nigeria's parliament.

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



Source: World Bank.

Structural Issues

Nigeria continues to pursue reforms, deregulation and re-organisation to remove the persistent structural bottlenecks that hamper economic recovery and growth. During 2001 the country made some progress in pursuing investments in areas of comparative advantage, especially in the oil and gas sectors. The government secured a production-sharing agreement with Chevron/Texaco and its partners for the deepwater oil block OPL250. As part of its policy of liberalising the downstream oil sector, the government at the start of 2002 re-launched the process of issuing licenses for the construction and operation of private refineries in Nigeria. At the end of 2001, Korea's Hyundai Heavy Industries signed contracts with the Nigeria Liquefied Natural Gas Project (NLNG) for the construction of four LNG vessels — to be delivered in 2004 and 2006 — for transporting gas from the plant at Bonny Island. Hyundai is already building three other vessels (due to come on line in late 2002) for NLNG. Likewise, at the start of 2002 Royal Dutch/Shell announced it was planning a new five-year investment of $7.5 billion with its joint-venture partners in Nigeria's oil and gas industry.

Nigeria continued in its privatisation programme, which is currently at a snail's pace. The country has a relatively long history of privatisation, dating back to March 1988, when the government established the Technical Committee on Privatisation and Commercialisation (TCPC) to oversee the programme and intended to: improve on the operational efficiency and reliability of SOEs; minimise the dependence of SOEs on the national treasury; roll back the frontiers of state capitalism and emphasise private sector initiative; and encourage share ownership by Nigerians. During the period 1988-93 that marked the Phase-1 of the privatisation programme, 88 SOEs were privatised. These were enterprises in which the Nigerian government invested jointly with foreign and/or private Nigerain investors. With the exception of the cement and oil marketing companies, the capitalisation of most of these enterprises was small. The Phase-1 privatisation was deemed successful, yielding several benefits including: considerable income accruing to the government — sale of shares and assets realised over N3.7 billion as gross privatisation proceeds from the privatisation of 55 enterprises; minimised the scope of political patronage in the form of Board appointments — the government relinquished about 280 Directorship positions in the privatised enterprises; and, in expanded personal share ownership in Nigeria, over 800 000 shareholders were created, almost twice as many as there were in 1988 when the exercise started. The TCPC wound up its activities in June 1993. Nigeria began another privatisation programme in 1999, under three phases, to continue from where the TCPC left off. The first phase completed at end-2000 involved the sale of 12 enterprises including banks and petroleum marketing companies, cement and insurance companies. The second phase, which was scheduled to be completed in 2000 started only in 2001 and has since been bogged down with problems. The National Assembly has been up against the privatisation of the key public enterprises scheduled to be sold such as the Nigeria National Petroleum Corporation (NNPC), Nigeria Security Printing and Minting Company (NSPMC), Niger Dock, Sadiq Petroleum and Nigeria Telecom Limited (NITEL) among others. The government reached agreement with the World Bank in early 2001 on a privatisation support credit with the Bank intensifying its support for the programme. Nigeria was offered debt relief in exchange for the privatisation of key SOEs including the National Electric Power Authority (NEPA), NITEL and Nigeria Airways. However, in May 2001, the World Bank body advising the Nigeria government in the privatisation of Nigeria Airways quit, saying its advice was not being heeded. This followed the Nigeria House of Representatives opposition to the sale of Nigeria Airways. In the last quarter of 2001 the government commenced the privatisation of NITEL with the sale of 51 per cent of the government equity interest to a core investor, which made a down payment of 10 per cent of the contract sum. The remaining 49 per cent of the government's equity interest is scheduled to be sold to small-scale investors through the capital market during 2002.

At the start of 2002 the government still has some 117 public enterprises, in such sectors as communications, energy, fertilizer, steel, aviation, insurance, transport, paper, sugar, cement, automobiles, finance and media to be sold in a programme expected to end in 2003. In 2002, the government chose 24 enterprises to be privatised. However, the programme has continued to face serious opposition. In October 2002, the Senate in calling on the President to halt the privatisation of NEPA, raised issues that cast doubts on the government's ability to continue with the privatisation programme.

In the financial sector the government's liberalisation process received a boost in 2001 with the introduction of universal banking. The guidelines allow banks to engage in any or a combination of the following: money market activities, including clearing; capital market activities; and insurance services. The extent of the demand for liberalisation in the banking sector, and the slow pace of the reforms are depicted by the fact that while by end-2001 there were 21 applications for bank licenses at different stages of processing, only one banking license was issued to Guardian Express Bank Plc., which could not commence operations. In the Other Financial Institutions (OFI) sub-sector, operating licenses were issued to three non-bank financial institutions, namely Folu Financial and Securities Limited, Blue-Wall BDC Limited, and Yobe Savings and Loans Limited. Approval was also granted in principle to two institutions, namely, Provident Savings and Loans to operate as a primary mortgage institution, and Infinix Capital Limited to operate as a finance company. In 2001, the restructured Nigerian Agricultural Cooperative and Rural Development Bank and the Bank of Industry began operations. In order to supervise the non-bank financial institutions effectively, the CBN established a new department, the Other Financial Institutions Department (OFID) to oversee the activities of this category of financial institutions.

An effort was made in 2001 to streamline the institutional arrangements in Nigeria's capital market. Consequently, the Abuja Stock Exchange, which was commissioned in 2000, was re-named Abuja Commodity Exchange, thereby changing the operational focus of the institution from being a stock exchange to a commodity exchange. Thus, the Nigerian Stock Exchange (NSE) remained the only stock exchange in the economy. During 2001, the NSE made some progress in improving market infrastructure through the upgrading of an automated trading system, expansion of investor-base, and consolidation of its global outlook. The NSE signed an additional MOU with the Egyptian Stock Exchange; three MOUs had earlier been signed with similar stock exchanges in Africa in the last three years. Nigeria's capital markets made a remarkable achievement in 2001, as most indicators exhibited an upward trend. The total volume, value and number of transactions in the secondary market increased by 18.7, 104.9 and 65.9 respectively during 2001; market capitalisation also rose sharply by 40.1 per cent during the year.

Political and Social Context

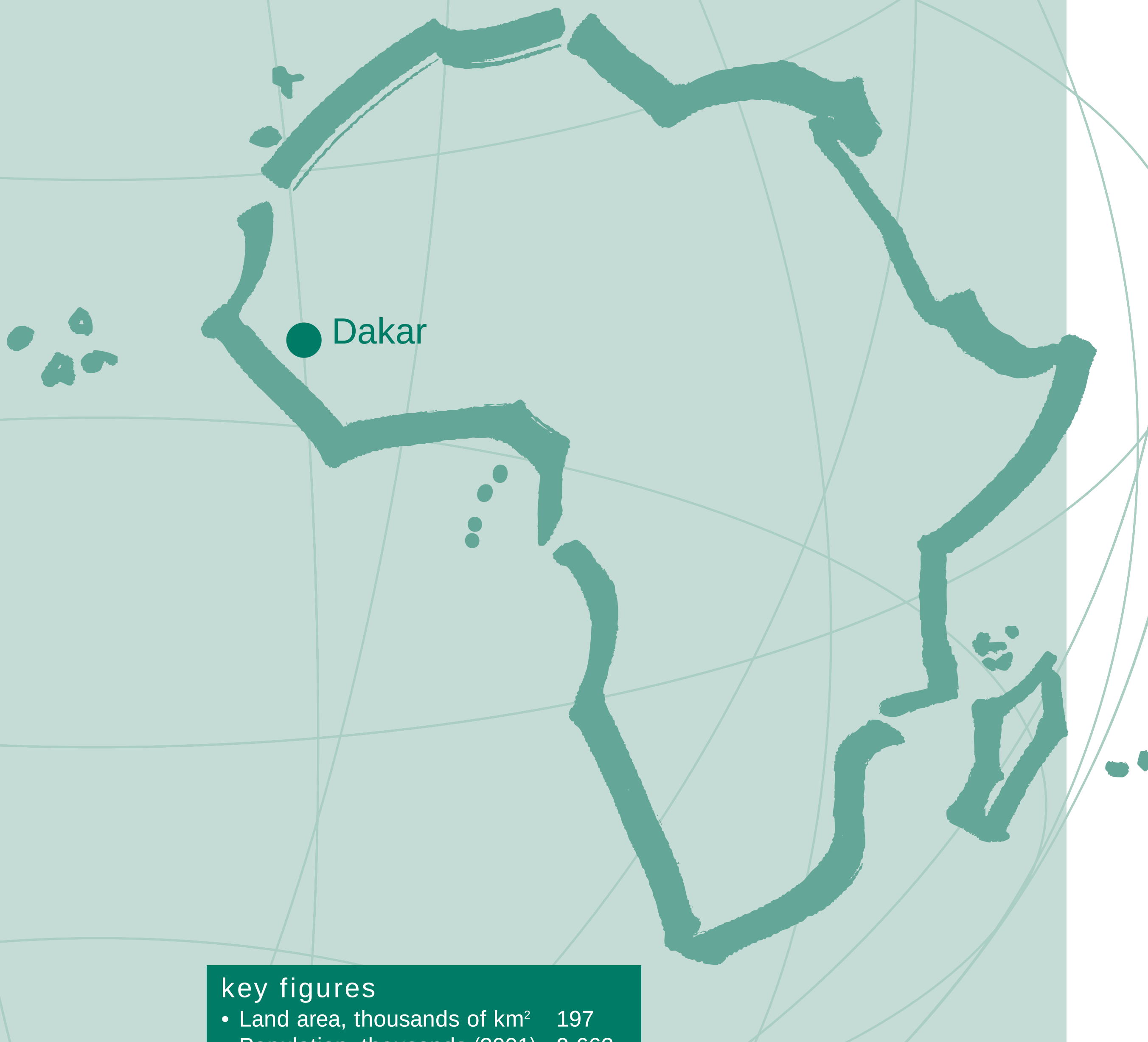
Nigeria's fragile democracy plodded on in 2001 amid a sharp rise in political tension, and heightened communal and ethnic violence. Several regional and national issues undermined efforts at promoting confidence in an orderly political process. The political situation took a turn for the worse following the assassination of the justice minister in late 2001. At the regional level, the introduction of sharia (Islamic law) in the northern states and especially the application of sharia to criminal cases from 2000 had caused violent conflict across the country. However, sharia poses considerable danger for Nigeria as it raises questions about the federal government's ability and willingness to protect the human rights of all Nigerians. At the national level, sharp ethnic divisions, which have long existed throughout the country, often stirred by political interests and inflamed by poverty and inequality, continue to undermine the viability of the political system. This long-standing fault line was compounded by the killing of the justice minister, which necessitated the government deploying troops in parts of Osun and neighbouring Oyo states to forestall reprisal attacks. As Nigeria moves towards local, state and federal elections, planned for between 29th March and 29th April 2003, the political atmosphere has quite naturally become charged and ethnic and religious tensions are heightened. A political storm erupted over changes to the electoral bill, which set the state, legislative and local elections in March 2003. State governors had wanted the local elections to be held in April 2002 and challenged the electoral bill in the Supreme Court. The President himself came under threats of impeachment from the Senate following the difficult fiscal situation that delayed the implementation of the 2002 budget. Moreover, Nigeria has never successfully held a transition from one elected government to another since independence more than 40 years ago. In spite of these problems, it is safe to say that Nigeria's democracy will endure given the utter disgust of most Nigerians of the military option.

On the international scene, Nigeria's relations with neighbouring Cameroon took a turn for the worse in October 2002 when Nigeria said it would refuse to hand over the disputed oil-rich Bakassi peninsula to Cameroon, as ordered by the International Court of Justice in The Hague. President Obasanjo had earlier promised to respect the ruling of the court. Nigeria, however, left the door open for negotiations by appealing to the UN Secretary General to intervene in the dispute.

Political tension, communal, ethnic and religious violence undermined the government's poverty intervention programmes during 2001. Consequently, the performance of the key social services did not improve significantly in 2001 despite increased budgetary allocations. The slow pace of rehabilitation of basic facilities and the high incidence of industrial actions in education and health hampered service delivery by the key institutions and departments established to mitigate the living conditions of the vulnerable groups. In the health sector, performance was mixed in 2001. The budgetary allocation to the sector rose to represent about 4 per cent of the government's budget for 2001 from about 2.5 per cent the previous year. This enabled repeated house-to-house visits by medical staff to immunise children against the six childhood diseases and contributed to the overall rate of immunisation rising from 72.7 per cent in 2000 to 74.6 per cent in 2001. Nevertheless, other health indicators including population per physician, population per hospital bed, and population per nursing staff deteriorated in 2001 owing largely to prolonged industrial action by doctors, nurses and midwives during the year. Furthermore, Nigeria had to cope with a growing threat of HIV/AIDS in 2001. According to the government's data Nigeria had 3.47 million HIV cases in 2001. The prevalence rate among people aged between 15 and 49 was estimated to have risen to 5.8 per cent in 2001 from 5.4 per cent in 1999 and 1.8 per cent in 1991. Nigeria is, thus, the most populous nation to have crossed the 5 per cent prevalence rate, the level, according to the UN, at which the epidemic begins to grow at an exponential rate. The government has responded to the worsening HIV/AIDS pandemic by launching at the start of 2002 an anti-AIDS programme, which includes the sale of generic life-prolonging anti-retroviral drugs at the cost of $9 a month, substantially cheaper than branded medicines. The government plans to purchase substantial quantities of anti-retroviral treatment from India to treat up to 15 000 sufferers a year.

The education sector received enhanced budgetary allocation, which rose by 10.6 per cent in 2001 and accounted for 7 per cent of the government's total budget. This enabled rehabilitation of schools under the government's UBE programme and contributed to modest improvements, as enrolment in both primary and secondary school increased by 4 per cent from 24.9 million and 6.4 million respectively to 25.9 million and 6.7 million respectively. This modest improvement was reflected in both male and female enrolment. However, other indicators of the education system including the pupil/teacher ratio in both primary and secondary schools deteriorated slightly from 54 and 41 respectively in 2000 to 56 and 45 respectively in 2001.

Senegal



key figures

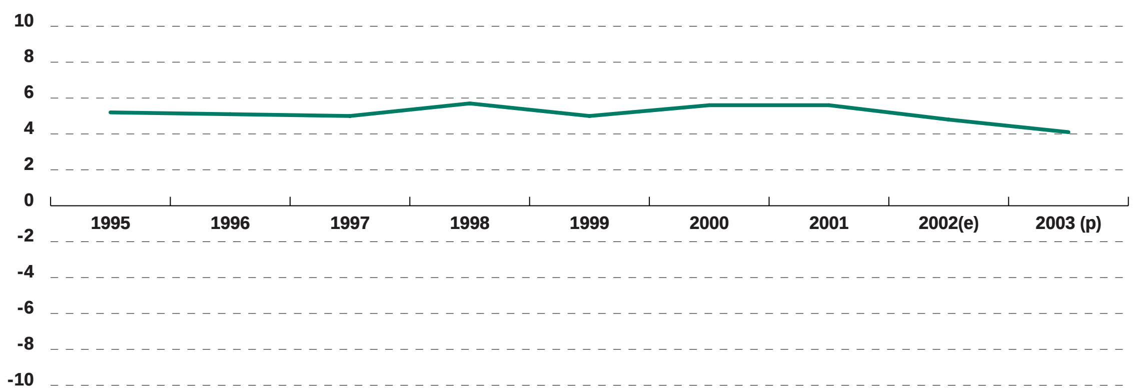
• Land area, thousands of km^2	197
• Population, thousands (2001)	9 662
• GDP per capita, \$ (2001)	478
• Life expectancy (2000-2005)	54.3
• Illiteracy rate (2001)	61.7

Senegal

SENEGAL HAS DISPLAYED GREAT ECONOMIC vigour since the 1994 devaluation, with annual GDP growth of more than 5 per cent. Amid this sustained growth, 2000-2002 was a transition period, when a peaceful transfer of political power boosted confidence in the future even though the changeover has made economic decision-makers cautious and delayed programmes in some sectors. The country is also having trouble completing structural reforms that are part of its programme with the IMF, such as privatising the electricity company (*Sénélec*) and the groundnut marketing body (*Sonacos*). These two firms have accumulated large deficits that the government had to make up for in 2001, badly skewing the budget. So relations with the Bretton Woods institutions are a little tense, while at home the government is coming to the end of its honeymoon that followed the political changeover. But a good economic performance in 2002 saw GDP grow by an estimated 4.8 per cent. 2003 may be a difficult year, especially as the 2002/03 harvest is not very promising, and GDP growth could fall to 4.1 per cent. However, the country could benefit from investment and trade redirected from Côte d'Ivoire because of the fighting there.

Despite sustained growth, Senegal is struggling to complete structural reform

Figure 1 - GDP Growth



Source: Authors' estimates and predictions based on data from the *Direction de la Prévision et de la Statistique.*

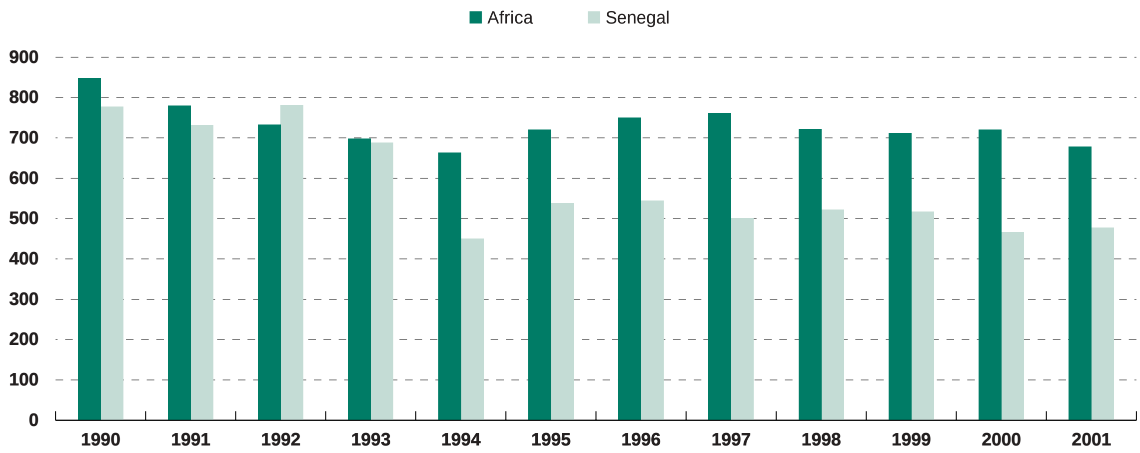
Recent Economic Developments

The primary sector's share of GDP is quite small compared with neighbouring countries,[1] though it remains the source of income for three-quarters of the working population. Agriculture, mostly subsistence crops and groundnuts, accounted for 11.1 per cent of GDP in 2001, a big improvement, after the bad weather of 1997 and 1998 gave way in 1999 to well-distributed rainfall, better food-crop yields and a larger area sown with groundnuts. This restored agriculture to its place as motor of the economy, where it represented an estimated 1.8 percentage points of the 5.5 per cent GDP growth in 2000 and 1.3 points in 2001.

But the sector still has problems that make for very erratic performances. Apart from dependence on the weather, these are mainly groundnut marketing

1. About 20 per cent of GDP in 2001, compared with 25 per cent in Mauritania, 30 per cent in Côte d'Ivoire and 40 per cent in Burkina Faso and Mali.

Figure 2 - GDP per capita in Senegal and Africa ($ current)



Source: Authors' estimates based on IMF data.

problems and the uncompetitive nature of potentially profitable crops such as rice. Groundnut marketing difficulties were aggravated during the 2001/02 growing season by the liquidation of *Sonagraines* (the firm handling seeds, collection and transport of groundnuts) and the government's decision to limit collection to 400 000 tonnes so as to use up the marketing body *Sonacos*'s existing stocks. On top of this, budgetary problems in *Sonacos* forced it to pay growers with bonds, which were still not redeemable several months after the harvest had ended. The government investigated and *Sonacos* suspected that some private operators in charge of giving out the bonds had stolen the money that backed them. Tensions in the countryside also rose because late rains meant the 2002/03 growing season would be difficult. President Abdoulaye Wade allotted 15 billion CFA francs (about $23 million) in emergency aid to the farmers but denied rumours of famine that circulated in the period between the two harvests.

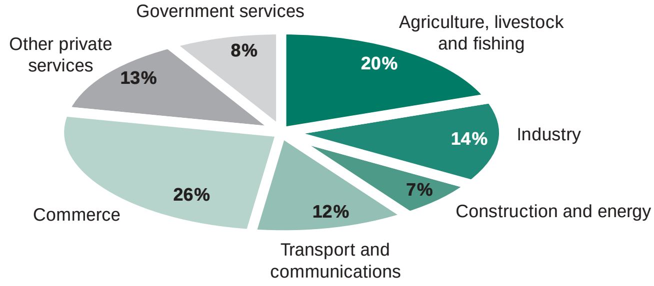
Two other economically and socially important primary sector activities – livestock and fishing – are having major structural and temporary problems. Livestock accounts for 6 per cent of GDP and employs some 350 000 families. In January 2002, floods devastated the north of the country (mainly around Saint Louis and Louga), with the loss of 600 000 head of cattle. Fishing only contributes 1.6 per cent of GDP but employs 600 000 people. Industrial fishing has been in major difficulty since 1999 because of over-fishing and ageing of the Senegalese fleet. Local fishing, which a large part of the population lives off, recovered somewhat in 2002.

The secondary sector has grown strongly in recent years and in 2001 was the second biggest contributor to GDP at 21 per cent. Senegal's industrial base is more diverse than its neighbours but is still mainly processing food crops and minerals, such as chemical phosphate plants. The government's aim is to reduce raw phosphate exports and step up processing them into acid and fertiliser for export. Production of phosphoric acid is expected to double by 2004. A new mine at Tobène (in the Thiès region) started up in 2002, triggering an 11 per cent growth in extractive industries.

Senegal stands out in sub-Saharan Africa because of its dominant tertiary sector, which grew rapidly during the 1990s and accounted for 60 per cent of GDP in 2001 (including non-market services). It has been fuelled by steady migration from the countryside and growth of small businesses arising from urbanisation. So the sector has an extensive informal side[2] to it, estimated in 1996 at 9.2 per cent of GDP

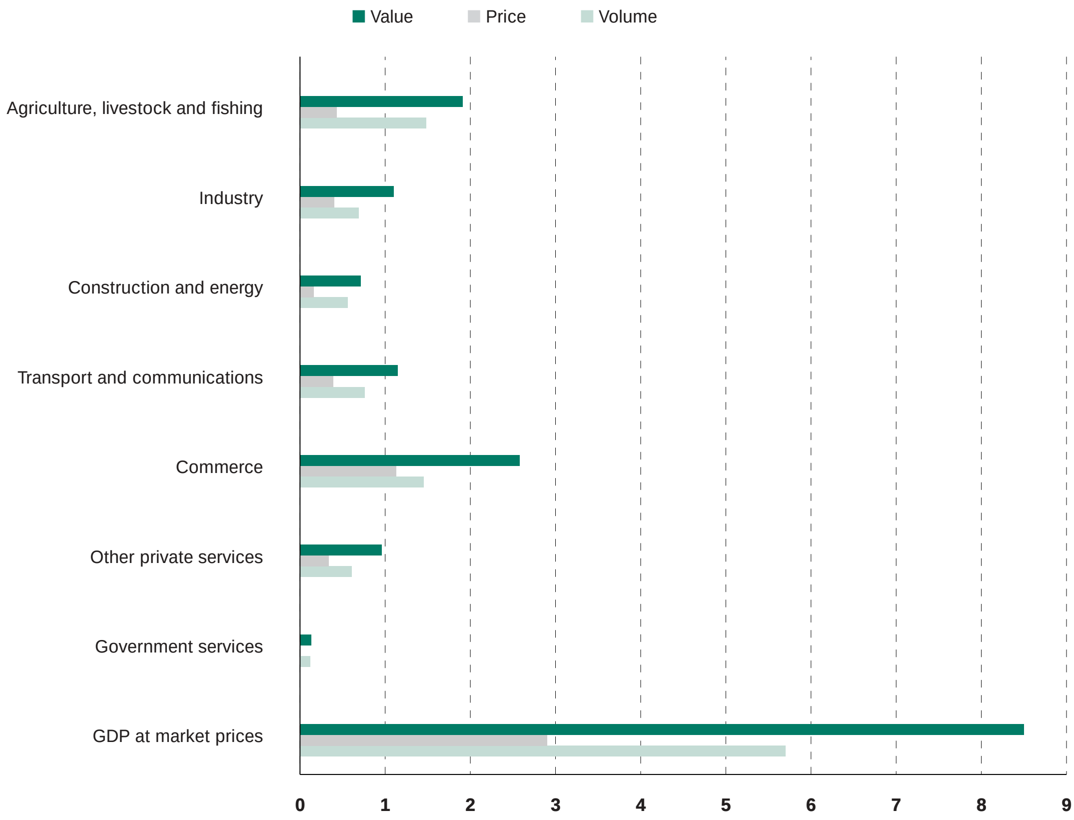
2. What distinguishes the informal sector from the formal is not so much non-payment of taxes as the problem for its members of keeping proper accounts due to the high illiteracy rate.

Figure 3 - GDP by sector in 2001



Source: Authors' estimates based on data from the *Direction de la Prévision et de la Statistique.*

Figure 4 - Sectoral contribution to GDP in 2001



Source: Authors' estimates based on data from the *Direction de la Prévision et de la Statistique.*

in the Dakar area alone, 51 per cent of it in the services sector. Though informal, it is quite visible from being organised into several professional associations, such as *Unacois*. But the tertiary sector slowed down sharply in 1999 and 2000 because of irregular electricity supply and investor timidity linked to the political changeover. Commerce and tourism recovered in 2001 and 2002 despite the 11 September attacks in the US, which had very little effect on the Senegalese economy.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003(p)
Gross capital formation	**16.7**	**20.6**	**22.9**	**20.0**	**19.9**	**20.0**
Public	4.4	8.3	6.2	6.4	7.0	7.1
Private	12.3	12.4	16.7	13.6	12.9	13.0
Consumption	**91.3**	**86.9**	**86.9**	**88.1**	**91.6**	**93.6**
Public	12.4	12.7	14.0	16.5	17.3	17.2
Private	79.0	74.3	72.9	71.6	74.3	76.4
External sector	**-8.0**	**-7.6**	**-9.9**	**-8.1**	**-11.5**	**-13.6**
Exports	32.1	30.4	29.7	29.6	26.3	24.1
Imports	-40.1	-38.0	-39.6	-37.7	-37.8	-37.7

Source: Authors' estimates and predictions based on data from the *Direction de la Prévision et de la Statistique*.

Senegalese private investment is traditionally 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 2001[3] to recovery as domestic savings conditions improved (the savings rate rose from 12.3 per cent in 1997 to 14.3 in 1999) and investors regained some confidence after the political changeover. The troubles in Côte d'Ivoire could strengthen this trend in 2003 by causing redirection of investment to Senegal.

Macroeconomic Policy

Fiscal and Monetary Policy

After devaluation in 1994, the country began a period of budgetary restraint to restore balance to public finances. In 1998, to stabilise the tax structure of the budget, a common external tariff (TEC) was introduced at the behest of UEMOA/WAEMU and the oil price stabilisation mechanism was replaced by indirect taxes. Streamlining the tax system continued in 2000 and 2001 with a scheme to get revenue from the informal sector through a levelling tax (on imported goods used mostly by the sector),[4] introduction of a single identification number for each taxpayer and the opening of advice centres to help firms simplify their accounting. The country also adopted a uniform sales tax (VAT) rate of 18 per cent in May 2001. These reforms have taken tax revenue since 2000 to above the UEMOA's convergence rate of 17 per cent of GDP. Budgetary reforms continued in 2002 with adoption of the new UEMOA legal framework for public finances before the December 2002 deadline. Senegal incorporated nomenclature changes in its 2002 budget to bring it into line with other French-speaking countries, as well as monitoring of public expenditure and new budgetary procedures to reduce salary payment arrears.

However in April 2002, the Bretton Woods institutions criticised management of public finances since the political changeover and refused to release the third tranche of the PRGF money. Several aspects of the 2001 budget led to this decision. The government was obliged to help the groundnuts and electricity sectors with their large debts to the banks, paying 65 billion CFA francs ($89 million) to *Sonacos* and 40 billion ($55 million) to *Sénélec*, accounting for the huge rise in expenditure that year. These deficits were covered by issuing treasury bonds for Sénélec and by obtaining a statutory BCEAO overdraft for *Sonacos*. The bond issue was partly redeemed in March 2002 and the remainder in September that year. The pressure on the financial system prevented full reimbursement of the statutory BCEAO advances[5] by the end of 2001

3. The jump in 2000 was due to a big stock variation (stocks were 5.6 per cent of GDP that year) because of investor caution during the political changeover. Stock variation also by definition includes errors of measure.

4. It was later abolished because it was an extra weight on the formal private sector without really achieving its aim.

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants [a]	**19.7**	**19.4**	**20.1**	**19.7**	**20.4**	**20.8**
Taxes	14.8	16.8	17.1	17.1	17.4	17.8
Grants	3.3	2.1	2.1	1.8	2.2	2.3
Total expenditure and net lending [a]	**19.9**	**20.8**	**20.0**	**21.7**	**20.4**	**20.2**
Current expenditure	14.2	12.0	13.2	15.3	12.8	12.6
Excluding interest	*11.3*	*10.6*	*11.7*	*11.3*	*11.7*	*11.7*
Wages and salaries	7.0	5.7	5.6	5.2	5.5	5.3
Interest payments	2.9	1.5	1.5	0.9	1.1	0.9
Capital expenditure	5.3	8.3	6.2	6.4	7.0	7.1
Primary balance	**2.7**	**0.1**	**1.6**	**-1.1**	**1.1**	**1.6**
Overall balance	**-0.2**	**-1.4**	**0.1**	**-2.0**	**0.0**	**0.6**

a. Only major items are reported.
Source: Authors' estimates and predictions based on data from the *Direction de la Prévision et de la Statistique.*

as scheduled. This problem is shared by all UEMOA countries, so they have reached a joint agreement with the BCEAO to repay such advances over 10 years.

Tax revenue in 2001 fell short by about 7 billion CFA francs ($9.5 million) owing to delay in introducing the standardised VAT. Expenditure was down because capital spending was 37 billion CFA francs ($50 million) less than budgeted. The late adoption (in September 2001) of the budget concerning the HIPC Initiative funds meant a substantial part of the amount earmarked for 2001 – 12 billion CFA francs ($16.6 million) of the total 17.8 billion ($24.3 million) – was rolled over to 2002, adding to the 22.5 billion ($30.7 million) budgeted for that year. But absorption problems may arise because the expenditure chain is too long. The overall national deficit increased in 2001 from near zero to –2 per cent of GDP.

The government's aim for 2002 is a big reduction in this public deficit through much better tax collection, which should be possible with the previous year's reforms (the VAT and the end of oil subsidies) and by curbing transfers to state bodies. A 10 per cent increase in electricity prices was imposed in 2002 to reduce the government subsidy needed. A 10 billion CFA franc ($13.6 million) grant should also allow *Sénélec* to repay its debts to the oil firms. However, new oil price rises may force a new increase in electricity rates. Absorption of the deficit in the groundnuts sector mainly depends on the government's ability to market groundnut oil locally. The reduced volume *Sonacos* has said it will collect, as well as the end of support for prices to growers should mean less risk of spending getting out of control again. The wage bill is expected to rise once more because of 6-9 per cent pay rises due to pension reforms.[6] Capital expenditure should also grow as the HIPC Initiative funds are taken up.

Like other UEMOA countries, Senegal's currency is pegged to the euro and its monetary policy is conducted by the BCEAO, which leaves fiscal policy as the government's main economic instrument. Since devaluation, inflation has been kept below 3 per cent. In 2001, it averaged exactly 3 per cent, despite a high at the end of the year due to food prices and standardising the VAT at 18 per cent. It should fall to around 2.6 per cent in 2002 and 2003.

External Position

With a diversification index of 13.6, Senegal's trade is more diverse than its neighbours, which export only a few commodities (Côte d'Ivoire's index is 5.8, Burkina

5. These reached 70 billion CFA francs in June 2002.

6. The government has increased wages to make up for the drop in purchasing power of civil servants caused by their increased pension contributions.

4.6, Mauritania 3.5 and Mali 1.9). At the end of the 1980s, fishing products replaced groundnuts as the country's main export. In 2001, fish and shellfish accounted for 31 per cent of exports, compared with 12 percent for groundnuts. Phosphates and chemicals extracted from them were in second place at 14 per cent. Re-exports (15 per cent of total exports), especially petroleum products to West Africa, illustrate Senegal's role as a transit point in the sub-region. Since 1995, some trade has shifted to African countries, though Europe is still the biggest customer, taking more than 40 per cent of exports). The active US trade policy in Africa should also help change the trade pattern in the medium term. Senegal was declared eligible on 24 April 2002 to benefit from the African Growth and Opportunity Act (AGOA) in the form of lower tariffs, especially on clothing exports to the US. As a result, the country has strengthened ties with Mauritius, which plans to set up export industries in Senegal and is already building a textile factory and another to produce printer cartridges.

Over 80 per cent of imports are food products (7.6 per cent of all imports are rice), semi-processed consumer goods or oil products (more than 23 per cent of total imports), mainly from Europe (including France, which supplies a quarter of all imports, down from 33 per cent in 1995).

Senegal's trade pattern makes it vulnerable (though less so than its neighbours) to up and downs in the three main export sectors (fish, phosphates and oils), which in recent years have suffered from a shrinking European market and internal problems with outdated infrastructure and dwindling raw materials. A dispute arose recently with the European Union over how much compensation Senegal should get under an accord allowing EU boats to fish in its waters. Agreement was reached on 25 June 2002 on a sum of €16 million annually over four years (instead of €12 million previously) for an annual quota of 1 500 tonnes of fish (instead of the previous 2 131 tonnes). This will include Senegal's first "biological rest" period from May 2003.[7]

Senegal's small exporting capacity means it has a structural deficit in its trade and current account balances. In addition, the trade balance deteriorated between 1997 and 2000, though there was a very slight let-up in 2001. The trade balance began worsening again in 2002 owing to many problems with traditional exports, especially fish and groundnuts.

The external debt in 2001 was 78.3 per cent of GNP at nominal value, which was fairly stable. In 1998, the ratio of the debt to government revenue was 305.3 per cent NPV, above the 250 per cent minimum to be eligible for the HIPC Initiative.[8] In June 2000, the country achieved decision point for the HIPC and promised to submit a poverty reduction strategy paper (PRSP) at the end of 2001. However, organisational problems meant household surveys to determine the level of poverty were late starting (not until June 2001) and the deadline for the PRSP was put back to mid-2002.[9]

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003(p)
Trade balance	-5.5	-7.3	-9.5	-8.3	-11.0	-12.6
Exports of goods	21.6	21.6	21.0	21.0	18.3	16.7
Imports of goods	-27.2	-28.9	-30.6	-29.3	-29.3	-29.4
Services balance	-0.1	-0.3	-0.4	-0.3		
Factor income	-3.5	-2.0	-2.1	-1.6		
Current transfers	3.8	3.3	5.3	5.4		
Current account balance	**-5.3**	**-6.2**	**-6.7**	**-4.8**		

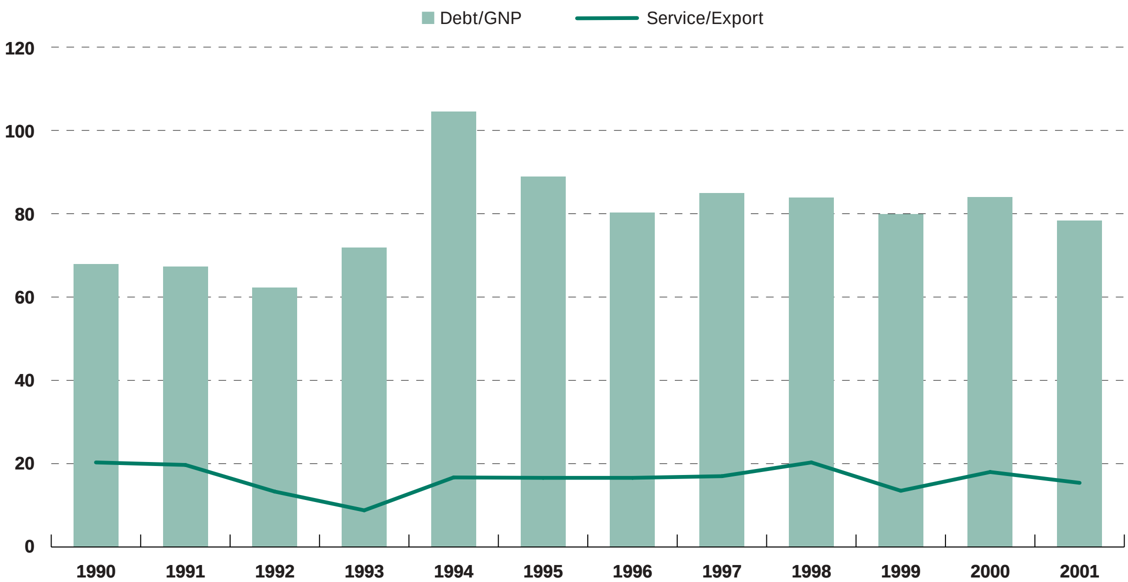
Source: Authors' estimates and predictions based on IMF data.

7. Involving a ban on fishing so stocks can replenish themselves.

8. This is the applicable level because the relief obtained on the basis of the ratio to exports would be less.

9. It was finalised and sent to the Bretton Woods institutions in May 2002.

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



Source: World Bank.

The priorities, drawn up after national consultations organised by the government, were encouragement of income-generating activity, access to jobs and basic services (health-care, water and education) and improving living standards for the poorest people. It was also decided to make the poverty reduction plan participatory and decentralised. Reaching completion point depends on signing up to an IMF programme and on some conditions set by funding agencies that have not yet been met. Structural reforms such as privatisations have been delayed, for example, and social targets in primary education and health-care have not been reached either.

Structural Issues

In 1994, Senegal promised the IMF and the World Bank it would liberalise domestic prices, foreign trade and the labour market. Plans for agricultural reform and a timetable for privatisation were also drawn up. However, by the end of September 2001, Senegal was not complying with structural reform targets for the poverty reduction and growth facility (PRGF) because of delays in privatisation, big financial deficits in the groundnuts and electricity sectors that had to be cleared by the government and the complexity of reforming the pensions system and the postal service.

The government began privatising in 1987, starting with the trade sector and moving on in 1995 to infrastructure. Water supply was privatised in 1996, although the water and equipment remained state property. In 1997, the national telecommunications authority *Sonatel* was partly privatised and then floated on the regional stock exchange, where it is a blue-chip company. Fifty-one per cent of Air Senegal was bought by Royal Air Maroc in January 2000. The first privatisations were mainly of companies in good shape that the government had invested in to make more attractive, so they were a success.

However the government's holdings still include problem firms such as *Sénélec*, whose privatisation was abandoned by both parties involved (the government and Hydro-Québec/Elyo) but was back on the market in 2001. A new call for tenders on 10 July 2001 resulted in the choice of Vivendi/ONE as the government's key partner. But negotiations had not worked out by 31 January 2002 and the government began talks with another candidate, AES Frontier. These failed too and a task force was set up to consider *Sénélec*'s future. The stumbling blocks with potential buyers are its out-of-date machinery and its bad financial situation which rules out renovation or increasing capacity.

Privatisation of the vegetable oil marketing body *Sonacos*, has been suspended for lack of a buyer, mainly because of untidy accounting and uncertain market prospects in the groundnuts sector. In November 2001, the government disbanded *Sonagraines*, the sector's collection and transport firm. The aim was to liberalise prices for these operations. But the authorities did not want to destabilise a sector employing a large part of the rural population, so chose not to fully open it to market forces for the 2001/02 harvest and designated collection areas for intermediaries and set benchmark prices. This first stage should allow the government to devise a restructuring plan for *Sonacos* and plan its privatisation in 2003.

As well as these privatisations, begun in 1999 and not yet complete, the government set a target of 11 others to be carried out by June 2002 to enable Senegal to reach the HIPC Initiative completion point. Some of the firms have been broken up or privatised, but the target of 11 is far from being reached, despite the flexibility in the list.[10] Among privatisations planned for 2002 were a concession agreement for operating the Dakar-Bamako railway. The technical bids by the Bolloré/SNCF International consortium and Canadian Railways were shortlisted by the government, which set a June 2002 deadline for financial bids. The capital of the state textile company *Sodefitex* was to be increased to bring the share of Dagris (ex-CFDT) up from 20 to a majority 51 per cent.

Talks with the trade unions about reforming the state pensions system have been difficult, but they produced passage of a law in February 2002 that broadened the salary base for contributions, pushed back retirement age from 55 to 60, reduced family allocations and calculated pensions on three years of salary instead of one. These changes allowed the National Pension Fund to show a slight current surplus in March 2002.[11] But the Bretton Woods institutions criticised the law, saying it did not ensure pensions could be paid over the long term. The authorities said a gradual approach was best and stressed the reform was well under way.

An audit of the postal service in 2000 showed accounting irregularities and the government removed its managers and froze investment. Postal rates were increased, home deliveries abolished[12] and government subsidies planned (from 2003) to eliminate the service's chronic annual deficit of between 1 and 2 billion CFA francs ($1.3 and 2.7 million). The government also says it will soon come up with an action plan to eliminate the service's debt, notably involving separation of its financial and postal services sections.

Senegal's banking system has been stabilised since structural reforms in 1989 and 1990 and has also been helped by the UEMOA council's adoption of new prudential ratios in January 2000. But the sector's performance is still mixed. Its loans are more diverse than in neighbouring countries, where most funding goes to their main product. The sector is also considered fairly healthy since the number of non-performing loans has been sharply reduced while the banks have increased their own capital. In 2001, net banking income rose by 14.8 per cent.

However, the financial sector is still very under-developed considering the economy's need for funding. The floating of Senegalese firms on the regional stock exchange is not picking up and *Sonatel* is still the only one listed five years after it joined. Banks complain about the level of debt, which encourages them to up their profit margins, demand iron-clad security and so exclude some potential customers. To meet the economy's needs, a parallel system has grown up of

10. Only the total number was fixed, not which firms were involved.

11. The Fund had shown an annual deficit until then of around 9 billion CFA francs (about $12 million).

12. This was put off until 2003.

mutual benefit societies providing small short-term loans, but there are no such facilities for medium-sized firms.

Senegal is geographically better off than other West African countries and its infrastructure is quite developed. But in the country as a whole it is unevenly distributed and badly maintained. With a World Bank loan, the government adopted a road, rail, sea and air transport development programme (PST II) in January 1999. However, because of the political changeover, it was revised, which caused delays and the World Bank considered its implementation unsatisfactory. Privatisation of the airport was dropped in favour of building a new one. Renovation of the Dakar-Bamako railway was slowed down by a change in the form of privatisation[13] and rehabilitation of the country's main roads was delayed by the setting up of new structures, mainly the Independent Roadworks Agency (*Agence Autonome des Travaux Routiers*) in 2001. Studies are under way for privatising the port of Dakar, especially the container terminal.

Senegal has outdated energy infrastructures producing far less than the country needs. The failed efforts to privatise *Sénélec* have increased the anger of a public that considers power cuts the main block to private initiative. They have also raised the key issue of finding the investment needed to provide sufficient supply, since experts agree that the start-up of the Manantali Dam at the end of July 2002 will not meet all the country's energy shortfall. For want of longer-term solutions, *Sénélec* has acquired two generators to produce a total of 30 mW from February 2003.

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. There was no democratic changeover until elections in March 2000, when the opposition Democratic Party (PDS) leader Abdoulaye Wade beat outgoing President Abdou Diouf. Wade inspired great hopes among Senegalese, but the new head of state had little room for manoeuvre until elections in April 2001, when the PDS finally won a parliamentary majority. Despite this victory, the situation remained uncertain until local elections in May 2002 because of in-fighting among the government coalition partners.[14] The opposition managed to keep some strongholds but the government now had a free hand nationally and locally. No more voting is due until parliamentary elections in 2006. The threat for the government will come not so much directly from the opposition parties as from social forces that may produce grassroots unrest if people believe the political changeover has not produced results.

The changeover made economic interests cautious at first, but the private sector quickly adapted, especially as the new government clearly supports the sector's growth and has taken on board several of its proposals, such as setting up a body to encourage small and medium-sized businesses. Investment has been made easier by a new investment promotion body, APIX, even though rigidities continue. Two obstacles remain however – the problem of land titles and heavy taxes. Lack of a national land register hinders the growth of farming, since land cannot be used as security, and private investment, because accession to and use of legally-acquired sites cannot always be guaranteed. The limitations of the political changeover are also seen in sectoral development programmes, where some investment has been put on hold because of it. About 40 per cent of the projects being monitored by the World Bank were considered unsatisfactory in February 2002.

President Wade is an internationally active leader, playing a leading role in peace missions to conflict areas (especially Côte d'Ivoire) and promoting the New

13. The initial plan of partial franchise was changed to total franchise.

14. The president won the presidency thanks to an alliance between liberals and the left. Relations between the two groups deteriorated after the government tried to take control of the Senegalese National Workers' Confederation (CNTS), which split the union.

Partnership for Africa's Development (NEPAD), which he partly inspired with the Omega development plan. However, Senegal's relations with neighbouring countries are difficult and conflict is frequent between people living on each side of the border with Mauritania. Trouble erupted recently along the border with The Gambia over increased taxes on Senegalese vehicles crossing Gambian territory to get to the other part of Senegal. The dispute came to a head in July 2002 when a blockade imposed by the Senegalese in reprisal for the vehicle tax increase prevented the Gambian foreign minister from entering Senegal. These incidents illustrate the persisting tension between the two countries, which centres on The Gambia's lack of support for the project to build a bridge over the River Gambia, which would greatly reduce the transit time between the two parts of Senegal and open up Senegal's southern Casamance region.

Since the 1980s, violence has flared up several times in Casamance. However, the government adopted an economic and social recovery plan for the Ziguinchor and Kolda regions in May 1999 after consulting with local officials there, showing a determination at government and local level to pacify the situation. In August 2002, two rival factions of the rebel Casamance Movement of Democratic Forces (MFDC) called for a resumption of talks with the government, two months after it launched a large-scale military offensive and as the rebel forces broke up into smaller roving armed groups. However, the sinking of the ferryboat Joola on 26 September 2002 on its route between Dakar and Ziguinchor with the loss of nearly 1,500 lives may aggravate the Casamance crisis if the government fails to deal effectively with its consequences, mainly by compensating the victims' families.

The government pledged in 1998 to push for greater transparency and to fight corruption. An anti-fraud plan was set up in the customs service and the legal system was strengthened with more training for judges. Despite these efforts, Senegal fell from 50th place (2000) to 65th (2001) to 66th (2002) in Transparency International's corruption perception index (out of respectively 88, 99 and 102 countries listed). A survey on the perception of poverty by Senegalese in 2001 showed that 94.5 per cent thought the standard of living would improve if the government managed to stamp out corruption throughout the country.

Decentralisation was also begun in 1995, enabling better distribution of wealth and more democratic institutions. This was boosted in 2001 with the anti-poverty programme whose participatory approach involved local communities in designing projects. Decentralisation is not yet complete but is seen by all as vital for the anti-poverty battle. The government is determined to push through reforms, as shown by its active participation in the HIPC Initiative and decision to design by itself the next programme with the IMF.

Despite good economic performances since devaluation, Senegal's social indicators show persistent poverty and many deficiencies in the education and health care sectors. In 1994, a spending and consumption survey, ESAM-I, showed that 57.9 per cent of the population were poor (measured as consumption of less than 2 400 calories a day). QUID 2001 (the Composite Survey of Development Indicators) said the figure had fallen slightly, to 53.9 per cent. However this improvement is not felt by the population, 64.6 per cent of whom think poverty has worsened in recent years. But this negative view goes along with a positive one of the future, with 50.5 per cent of heads of households expecting poverty to decline over the next five years. Wealth differences include very sharp inequalities between regions, between town and country and in the cities themselves. Worst off are the central, south and northeast regions.

Infant mortality is lower than in neighbouring countries (56.8 per 1 000 for 2000-2005 compared with more than 80 for the rest of the sub-region), but life expectancy is still low at 54 years. However, Senegal stands out from its neighbours with its quite effective HIV/AIDS prevention programme, which has given it the lowest rate of the disease in West Africa (0.5 per cent in 2001).

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, 7 in 2000 and a goal of 9.17 per cent in 2002 (above the 9 per cent World Health Organisation target). It is also one of the top priorities of the PRSP. The government wants to increase vaccination coverage from 48 per cent in 1998 to 70 in 2005 and access to health care (defined as less than 30 minutes away) from 41.8 per cent in 2001 to 50 in 2005 in rural areas and from 79.7 per cent to 85 in cities.

The education sector has serious shortcomings in the form of low enrolment and literacy rates. Only 38.2 per cent of the population was literate in 2001, one of the lowest rates in West Africa, and gross primary school enrolment was 69.4 per cent in 2000/01 (the government put it at 73 per cent in 2001/02), on a par with Côte d'Ivoire and Ghana, but well below the figure for much poorer countries such as Benin and Togo.

These bad performances are striking because Senegal spends much more on education than other sub-Saharan countries (about 36 per cent in 2002), but the poor result is because money is systematically channelled to university education to the detriment of primary education. An education programme drawn up under the 20/20 Initiative with the schools themselves and international funding agencies aims to increase primary education's share from one third at present to 44 per cent by 2003 and eventually to 50 per cent. But the new government disagrees with the policy of its predecessor and has reversed the situation by giving scholarships to all higher education students, using up funds that could have gone to primary education. This policy disagreement with the funding agencies (especially the World Bank) has brought the 10-year education plan (Pedef) to a halt.

South Africa

key figures

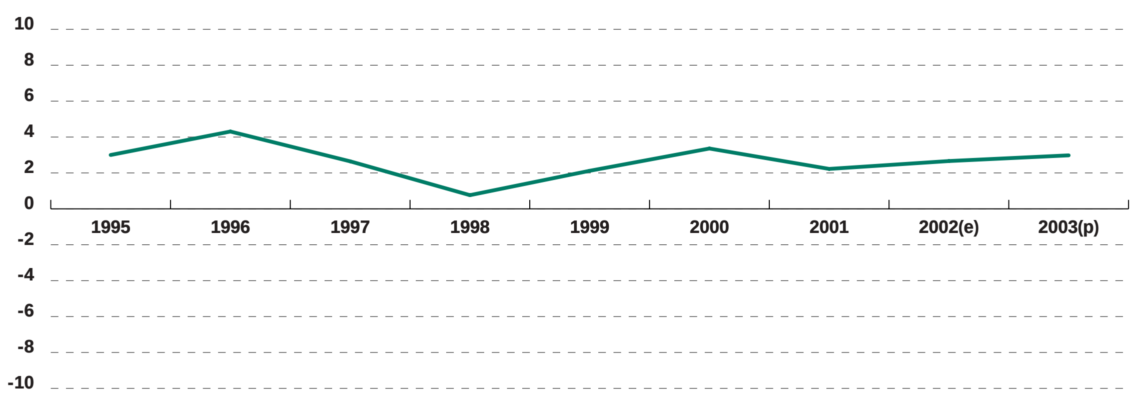
• Land area, thousands of km²	1 221
• Population, thousands (2001)	43 792
• GDP per capita, $ (2001)	2 587
• Life expectancy (2000-2005)	47.4
• Illiteracy rate (2001)	14.4

South Africa

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, grew by 2.2 per cent in 2001, from 3.4 per cent in 2000, mainly on account of a contraction in overseas demand that lowered export prices and volumes. However, the sharp depreciation of the exchange rate at the end of 2001 mitigated the slowdown of the economy, and growth is expected to be about 2.7 per cent in 2002 and 3 per cent in 2003, supported by buoyant exports, domestic demand and higher public investments. The positive expectations are, however, precarious as uncertainty and lack of confidence in the economy remain, fuelled by the political instability in neighbouring Zimbabwe, the delay in the privatisation process, the high level of crime, and the handling of HIV/AIDS. These are among the main factors that determined the sharp depreciation of the rand in the second half of 2001 (when it depreciated by 34 per cent against the US dollar). Although this depreciation boosted exports in some manufacturing sectors, it was responsible for an upsurge in the inflation rate. The response has been to tighten monetary policy, moving in the opposite direction of the 2002/03 mildly expansionary budget. Against this background, the prospects for reducing the high unemployment, fighting poverty and promoting social cohesion remain low.

Despite the competitiveness gains reaped in 2002, South African growth prospects remain precarious

Figure 1 - Real GDP Growth



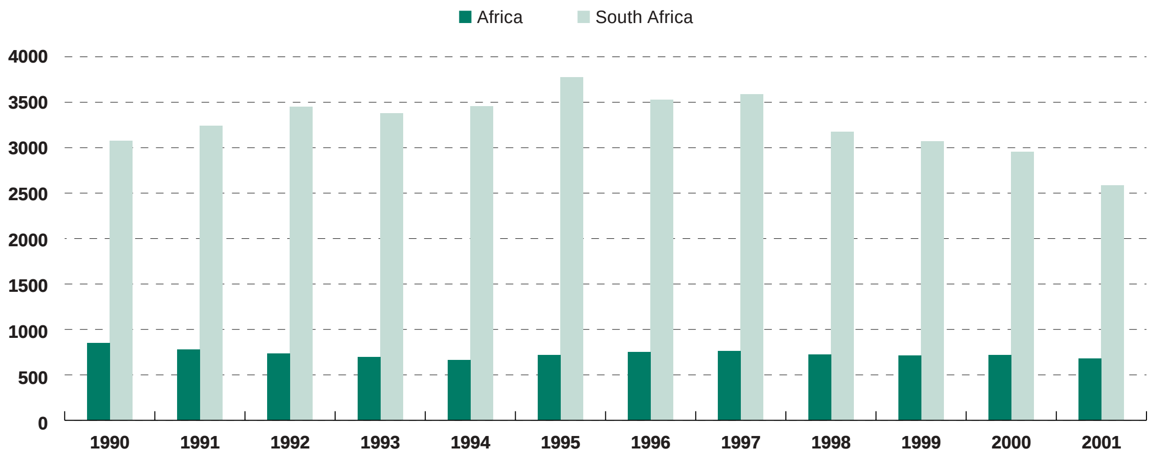
Source: Authors' estimates and prospects based on South African Reserve Bank data.

Recent Economic Developments

The South African economy has inevitably suffered from the slowing down of the global economy, but still succeeded in keeping growth at 2.2 per cent, aided by a strong export performance following the depreciation of the rand. Indeed, the second half of 2001 was characterised by sharp depreciation of the rand as a result of the confluence of economic, political and confidence factors built up during the year. This was responsible for an upsurge in inflation which has continued its upward trend since the last quarter of 2001, reaching 12.5 per cent in October 2002 from 5.8 per cent in September 2001.

The growth performance of 2001 can be explained by the steady increases in manufacturing, construction, and the tertiary sector. The ongoing depreciation of

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



Source: Authors' estimates based on IMF data.

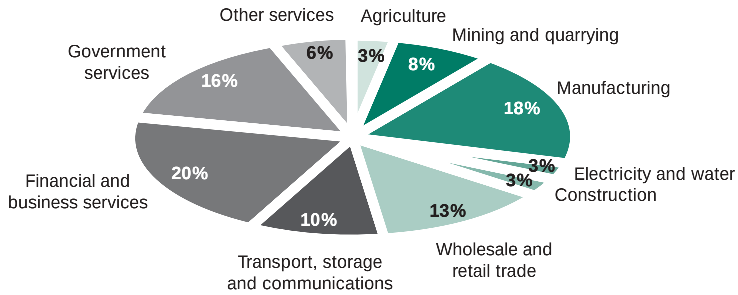
the rand has boosted manufacturing output which grew by 3.4 per cent in 2001, accelerating to 5.5 per cent in the last quarter of 2001 in tandem with the peak of the rand's depreciation. Construction grew by 5 per cent, backed by the lower interest rate that boosted the sales and construction of homes and buildings. The tertiary sector expanded throughout 2001, buoyed by continuous expansion of financial intermediation and transport and communications sectors and by the sustained growth of retail trade. Growth for 2002 is estimated at 2.7 per cent, rising to 3 per cent in 2003. In 2002, growth of the general economy was sustained by buoyant exports, a pick-up in the demand for goods produced by import-competing industries, and public investments.

In the mining sector, despite a sharp decline in gold production, mining output remained unchanged at the levels of 2000, owing to continued strong output of platinum and diamonds which also experienced robust growth in 2002. The mining industry is experiencing turmoil owing to the Minerals and Petroleum Development and Resource Bill passed in late June 2002. This is significant in so far as this is the first time in South Africa's 130-year mining history, that mineral rights are vested with the state. The main purpose of the Minerals and Petroleum Bill is to set out how South Africa can manage its mineral resources in a way that will bring about transformation in the mining industry. The new mining legislation, which should come into effect early next year, will grant mineral rights for 30 years, while the international average for mineral rights is 25 years.

The government Act, which is backed by black empowerment groups and trade unions, aims at creating better opportunities for black business, as well as small and medium enterprises. The law is strenuously opposed by the main mining conglomerates because it is seen as not providing the long-term security necessary to justify billion dollar investment decisions. Further discontent by the white-controlled mining companies has been caused by the leaking of the empowerment mining charter which states that at least 51 per cent of the mining industry must be transferred to black power entities within ten years. The leaked charter was understood as partial nationalisation, provoking a fall in the mining stocks.

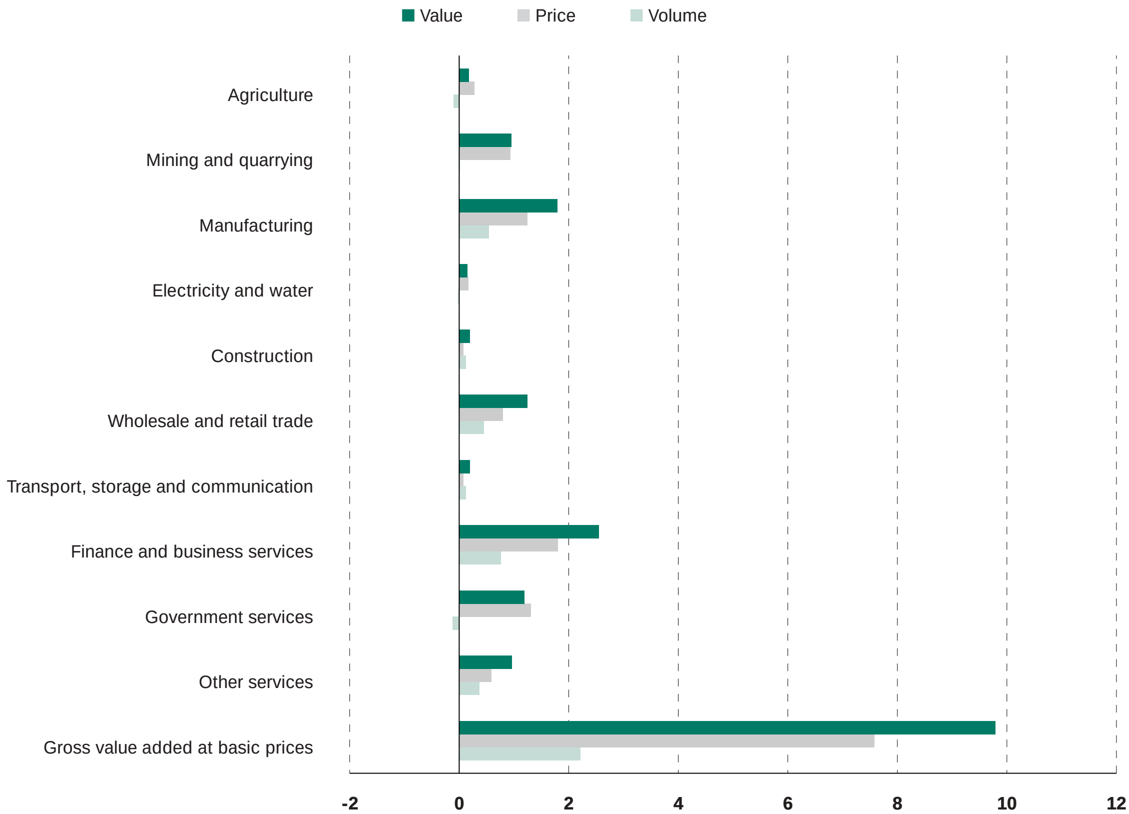
The government has therefore backtracked, pointing out the draft was still to be negotiated with the industry and labour force. A task force of the government, industry, black business and unions has been established with the scope of drawing up a new mining charter. The government ensured that the new mining charter would not measure empowerment by percentage targets and that any sale or transfer of ownership in the mining industry would be undertaken in a transparent manner at fair-market value.

Figure 3 - Structure of GDP in 2001



Source: Authors' estimates based on South African Reserve Bank data.

Figure 4 - Sectors' contribution to growth in 2001



Source: Authors' estimates based on South African Reserve Bank data.

The manufacturing sector has shown mixed results over the last five years. Following the continuous rand depreciation, some sub-sectors, such as chemicals, basic metals and motor vehicles manufacturing, and the related leather and rubber products, have raised output substantially. The growth rate of the motor vehicles parts and accessories averaged 4 per cent per annum from 1996 to 2001 and with the rand still at quite depreciated levels, it is expected to continue expanding in 2002 and 2003. Although small, the fastest growing manufacturing sub-sectors are plastic products, television, radio and communication equipment which grew on annual average by more than 8 per cent over the past five years. On the other hand, more labour-intensive sectors, such as textiles, clothing and footwear, have been hard hit by low domestic demand, tariff reductions and increased international competition. These sectors have experienced a slow growth, or in some cases negative growth, resulting in significant employment losses. It is important to emphasise that if we look at manufacturing performance in aggregate over the last 5 years (1996-2001) there has been a small growth in output hovering annually in real terms at around 2 per cent with a parallel average annual decline in employment of around 2 per cent. This partly explains increasing productivity growth in the last five years – where firms have become more productive but at the cost of jobs.

The tertiary sectors continued to expand significantly all through 2001. Wholesale and retail trade grew by an average rate of 3.5 per cent in 2001 and experienced an acceleration in the fourth quarter of the year, owing to pre-emptive buying by consumers in response to high inflation expectations. Over the same period, the transport, storage and communication sectors grew by an average of 3.7 per cent. Growth in these sectors was spurred by increased activity in the telecommunications industry, where a third cellular telephone operator – Cell C – started operations in 2001, an increase in harbour and docks traffic, and lively foreign tourism. Recent statistics show that foreign tourism increased substantially in 2002 (the number of non-residents visiting South Africa rose from 4.8 million in the first 10 months of 2001 to 5.3 million in the same period of 2002), boosted by the rand depreciation. A number of initiatives in environmental and tourism policy are expected to boost tourism even further. These include: the Transfrontier Conservation Area Program, World Heritage sites, and the Coastcare and the Wetlands Conservation programme. Although affected by the global downturn, the financial intermediation, insurance, real estate and business services sector maintained a growth rate of 4 per cent, compared with 6 per cent in 2000.

Agriculture's share of total output is about 3 per cent of real gross value added. However it remains an important sector in terms of employment creation, accounting for 11.2 per cent of the country's employment. The strong growth of agriculture in 2000 was followed in 2001 by a decline in output of an estimated 3 per cent. As a result of a substantial decrease in the production of summer crops, the volume of field crop production decreased by 15 per cent compared to the previous year. Horticultural production decreased by 4.5 per cent while animal production decreased by 4 per cent. Maize, which is the most important field crop (white maize, in particular, is the staple food for the major part of the population) experienced a decrease to 8 million tonnes in 2001 compared to 11.4 million tonnes in 2000, owing to less than normal rainfall at the beginning of 2001. The lower domestic production and the regional shortage (especially in Zimbabwe) coupled with the depreciation of the rand led to an increase in maize price - from R800 per ton in June 2001

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Gross capital formation	**18.1**	**16.0**	**16.1**	**15.6**	**16.1**	**16.8**
Public	4.3	4.8	4.1	3.8	4.0	4.4
Private	13.8	11.2	12.1	11.7	12.1	12.4
Consumption	**81.0**	**81.4**	**81.1**	**80.6**	**79.3**	**78.4**
Public	18.4	18.4	18.1	18.1	18.1	18.4
Private	62.6	63.0	63.0	62.5	61.2	60.0
External sector	**0.9**	**2.6**	**2.8**	**3.8**	**4.6**	**4.8**
Exports	23.0	25.6	28.6	31.0	32.8	34.0
Imports	-22.1	-23.0	-25.8	-27.1	-28.2	-29.2

Source: Authors' estimates and predictions based on South African Reserve Bank data.

to R1 500 per ton in June 2002. In the first half of 2002, the declining trend of agricultural output was reversed thanks to the good wheat crop, the second most important field crop of the country, which determined a growth of the sector of 4.5 per cent.

Compared to other emerging economies – South Africa is still characterised by relatively low levels of investment. Indeed, the investment/GDP ratio decreased from 18 per cent in 1995 to 15.6 per cent in 2001. 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 for economic growth. However, in 2002, it is estimated that gross fixed capital formation recorded an increase as a result of the higher level of government spending directed at improving the road network and at urban renewal and higher private investments in the cellular telephone industry, tourism and in platinum mining. The same trend is expected for 2003.

Although average growth in real private consumption slowed down from 3.5 per cent in 2000 to about 3 per cent in 2001, it accelerated in the fourth quarter of 2001, reflecting some pre-emptive buying of transport equipment by consumers to avoid further price rises. In 2002, the growth pattern of household consumption was mixed, underpinned on one side by nominal wage increases and tax cuts in the 2002/03 budget and constrained on the other side by monetary tightening, which raised the financing costs on instalment sale credit, compressing durable goods purchases. Real government consumption increased by 1.5 per cent in 2001 compared with 0.5 per cent in 2000, reflecting the expansionary stance of the 2001/02 budget. This increase, which continued in 2002, resulted from higher spending on intermediate goods and services and higher employee remuneration. Notwithstanding these developments, the ratio of final consumption expenditure by general government to gross domestic product has remained at about 18 per cent since 2000. In 2003, the public consumption ratio over GDP is expected to continue to increase mainly thanks to additional spending on targeted social welfare services. The external position is estimated to have improved in 2002 in line with the increase in competitiveness due to the rand's fall. The same trend is expected for 2003.

Macroeconomic Policy

Fiscal and Monetary Policies

The government's continued efforts to contain the deficit resulted in a deficit/GDP ratio of 1.4 per cent in the fiscal year 2001/02 (well below the official 2.5 per cent target). The low deficit partly reflects improvements in tax collection, owing to the increased efficiency of the South African Revenue Service. The increase in tax collection (by 15 billion rand more than budgeted) counteracted the lower than expected proceeds from privatisation (which were expected to be about R18 billion in 2001/02 and were limited to R2.3 billion). However, part of the reduced deficit stems from underspending by provinces and local governments, where much of the spending is channelled, owing to capacity constraints and lack of co-ordination. Recent official data indicate that provinces spent less than 47 per cent of their capital allocation between January and September 2001.

In line with the 2001/02 budget, which, against a background of improvement in the fiscal position, led to a transition from fiscal austerity to a growth-oriented policy, the 2002/03 budget is mildly expansionary. This policy has also been undertaken in response to the global slowdown and the sluggish domestic economy. The 2002/03 budget focuses on increasing spending on social services, (supporting an enhanced programme to address the impact of HIV/AIDS) and promoting tax cuts for individuals, further tax incentives for investment, and a more generous tax regime for small business. Government spending is budgeted to grow by 9.6 per cent to R287.9 billion ($33 billion at the 2001 average exchange rate of 8.6 Rand per $) in 2002/03, while revenue is expected to increase by 6.5 per cent to R265.2 billion($30.7 billion). Education, health and welfare expenditure accounts for about 57 per cent of non interest allocations in 2002/03 and are expected to grow by an average of 4.1 per cent a year in real terms for the next three years. Capital

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

	1995/96	1999/00	2000/01	2001/02	2002/03(e)	2003/04(p)
Total Revenue and grants[b]	**22.5**	**25.0**	**24.6**	**25.9**	**25.3**	**25.1**
Tax revenue	22.1	24.4	24.2	25.5	24.8	24.6
Total expenditure and net lending[b]	**27.5**	**27.0**	**26.6**	**27.4**	**26.6**	**27.1**
Current expenditure	25.3	26.4	26.2	26.5	25.8	25.7
excluding interest	*20.1*	*22.4*	*21.2*	*21.7*	*21.6*	*21.8*
Wages and salaries	10.3	10.4	10.1	10.0	9.8	9.8
Interest	5.2	4.0	5.1	4.8	4.1	3.9
Capital expenditure	2.4	1.4	1.4	1.8	1.8	2.0
Primary balance	**0.2**	**2.0**	**3.1**	**3.4**	**2.8**	**1.9**
Overall balance	**-5.0**	**-2.0**	**-2.0**	**-1.4**	**-1.4**	**-2.1**

Notes: a: Fiscal year begins 1 April.
b: Only major items are reported.
Source: Authors' estimates and predictions based on South African Reserve Bank and IMF data.

spending is budgeted to grow by 9 per cent a year in real terms for the next three years, including strong investment in both social infrastructures - such as schools, hospitals, and housing – and provision for investment in roads, water services and other economic assets. Moreover, 13 per cent of the expenditures will be devoted to expanding the country's police service and to reinforcing the administration of justice. However, such ambitious plans may be compromised by the strategy pursued by the government: 80 per cent of total expenditures will be channelled through provinces and local governments which have so far proved to be inefficient and unaccountable. In order to solve the problems linked to underspending and capacity constraints at the provincial and local levels, the government started to strengthen managerial capacity building programmes, upgrade information systems and enhance financial management training. However, it will take some time before the absorption capacity of the local entities improves.

On the revenue side, the sharp improvements in company tax receipts experienced in 2001/02 makes substantial relief to tax payers possible again in the 2002/03 budget. Tax cuts of R15 billion ($1.73 billion) are scheduled through a restructuring of personal income taxes affecting particularly the middle-income class. Moreover, a tax allowance is introduced to promote training, and tax relief for small businesses is extended [to those having a turnover of up to R3 million ($347 000) compared with R.1 million ($115 000) previously] to encourage emerging entrepreneurs.

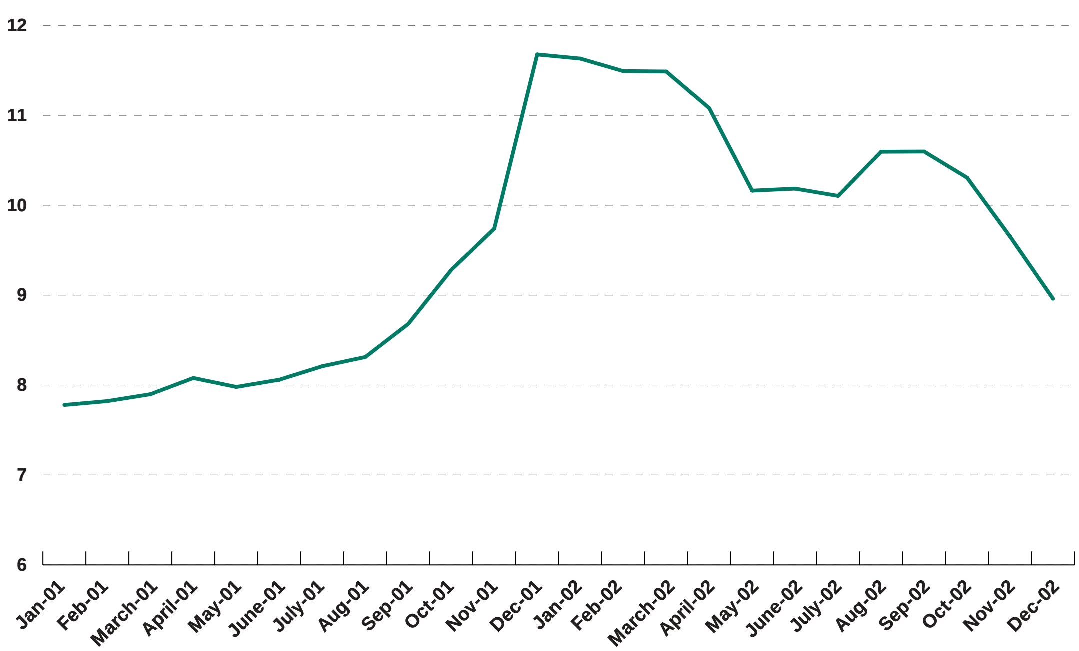
Despite a growth-oriented approach, it is estimated that, owing to underspending at provincial level, the overall deficit will be below target (which was set at 2.1 per cent of GDP) at about 1.4 per cent of GDP for the fiscal year 2002/03. Such a small government budget deficit also stems from the improved efficiency of the South Africa Revenue Service which, as mentioned earlier, allowed for higher than budgeted revenues in past years. However, problems will arise when the efficiency gains in revenue collection reach a ceiling and no longer compensate for poor privatisation proceeds. In 2003/04, the budget deficit to GDP ratio is forecast to increase to 2.1 per cent, owing to further tax relief measures and additional spending in targeted social welfare services, including HIV/AIDS prevention and treatment, and on economic infrastructure.

In South Africa, the exchange rate is flexible and therefore cannot be used by the national authorities for inflation control purposes. Since 2000, 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. Inflation experienced a decline in the second half of 2000, reaching 5.8 per cent in September 2001, and the target for inflation was set by the Monetary

Policy Committee at between 3 to 6 per cent in 2002 and 2003. However, inflationary pressures increased dramatically in the first months of 2002 in response to the rand's depreciation, which moved from around R7.60 per US dollar at the beginning of 2001 to a new all time low of R13.84 to the US dollar on 21 December 2001. During the latter part of 2001, a combination of concurrent factors led to this rapid depreciation of the rand. These include the loss of confidence stemming from regional instability – particularly in Zimbabwe, perceptions about unemployment, HIV/AIDS, crime, and the lack of progress with privatisation. The rand consolidated in the first half of 2002 (reaching R9.74 per US dollar at the end of May), however from June until October it came under increased pressure, owing to the deteriorating political and economic situation of the region. Another crucial factor that contributed to the rand depreciation was the leaking of the draft mining charter which led to substantial net sales of securities in the bond and equity markets. As a consequence, the increase in CPIX, the consumer prices minus the interest cost on mortgage bonds, averaged 6.8 per cent in the last quarter of 2001 and continued its upward trend in 2002, reaching 12.5 per cent in October. The category that contributed most to the acceleration of CPIX was food, owing to the exchange rate depreciation coupled with the need to import grain into the Southern African region. According to the South African Reserve Bank, both at production and consumption level, food price inflation picked up dramatically, reaching maximum year-on-year levels of 30 and 20 per cent respectively.

The authorities' concern that the depreciation of the rand and expectation of higher inflation could result in higher wage demands and further price increases, led to the abandoning of the policy of non-intervention and the use of interest-rate policy to defend the currency directly. Since January 2002, the Monetary Policy Committee has increased the repurchase rate of the South African Reserve Bank four times already (by 100 basis points each time) leading to a rate of 13.5 per cent in September 2002. However, such tight monetary

Figure 5 - Average Monthly R:$ Exchange Rates 2001-2002



Source: South African Reserve Bank.

policy raises concerns about the negative short-term impact on the already low economic growth. Another reason that led to the Monetary Policy Committee's decision was the evidence of excessive increases in money supply and credit extension. The increase of the latter was mainly due to pre-emptive buying of durable consumer goods in anticipation of price increases. Despite these actions, CPIX inflation is estimated to have averaged 9.6 per cent in 2002 and is projected to decline to 7.7 per cent in 2003, still above the Central Bank's target. Major factors that may prevent the attainment of the inflation target for 2003 include the exchange rate of the rand, the continued high level of growth in money supply and credit extension, and the recently announced increase in salary and wages in the private and public sector.

External Sector

Over the past two years, no major developments have taken place as far as South Africa's multilateral trade policy is concerned. However, with the success of the Doha Development Agenda at the WTO, the government may undertake some revision of the still-cumbersome tariff structure.

In general, South Africa's tariffs are low in agriculture, by international comparison. As far as industrial tariffs are concerned, these are relatively moderate. There are, however, peak tariffs above 20 per cent in products such as motor components and motor vehicles, and clothing and textiles. The major problem is that many tariff categories exist in the economy, meaning that South Africa's tariff structure is highly dispersed. As we can see from the table, the standard deviation is higher for manufacturing but has come down significantly from 18 per cent in 1997 to 9.4 per cent in 2001. A key priority for government is to reduce the level of dispersion of tariffs and make the tariff structure more uniform.

The effects of South Africa's free trade agreements are beginning to be felt in the external sector. However, movements in the external sectors have been significantly overshadowed by the substantial depreciation of the rand towards the end of 2001.

Table 3 - Tariff Structure for 1997, 2000 and 2001 with Imports for 2000

	# of lines	imports (R million curr pr)	imports %	weighted average	unweighted average	unweighted average	unweighted average	standard deviation	standard deviation	standard deviation
	2000	**2000**	**2000**	**2000**	**1997**	**2000**	**2001**	**1997**	**2000**	**2001**
Agriculture	295	1 459	0.8%	1.4%	5.6%	4.2%	4.0%	8.9%	7.5%	7.2%
Mining	107	25 559	14.5%	0.0%	1.4%	1.2%	1.4%	3.4%	3.2%	3.7%
Manufacturing	5 479	149 539	84.7%	8.6%	15.6%	6.7%	6.7%	18.0%	9.6%	9.4%
Total	5 883	176 564	100.0%	7.3%	15.1%	6.5%	6.5%	17.8%	9.4%	9.3%

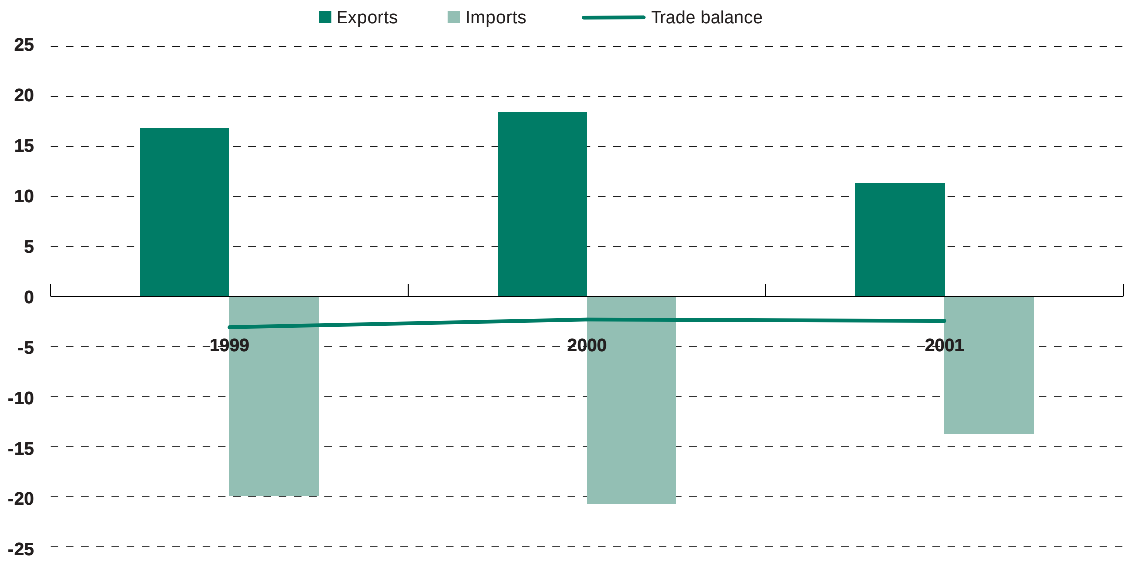
Source: Department Trade and Industry, Customs & Excise, Van Seventer 2002, Trade and Industrial Policy Strategies (TIPS).

The effects of South Africa's bilateral and regional trade agreements are difficult to gauge, in view of the fact that they have just been concluded in the last year or two. Some trends are, however, beginning to emerge.

Trade between the EU and South Africa has continued to grow, since the conclusion of the Free Trade Agreement (FTA) in January 2000. The EU is South Africa's largest trading partner, accounting for 31.3 per cent of exports and 39.7 per cent of imports in 2000. The EU agreement is heavily front-loaded in favour of South Africa. Some analysts show that there was a net increase in exports from South Africa for those products that were subjected to a tariff reduction of 2000. A more elaborate analysis is needed to isolate the impact of the FTA on South Africa/EU trade bearing in mind the depreciation of South Africa's exchange rate and other factors. Nevertheless, the trends below show a declining trade balance with the EU in 2000 with a marginal increase in 2001.

Regarding the Southern African Development Community (SADC) Free Trade Agreement, launched in 2000, South Africa has undertaken to fast track the

Figure 6 - South Africa's Exports to and from the EU



Source: Department Trade and Industry and Trade and Industrial Policy Strategies data (TIPS).

lifting on import tariffs on goods from the SADC region. Tariffs on 65 per cent of imports have been lifted in 2000 while 95 per cent of imports from the region would be duty free by 2005. However, South Africa still enjoys a significant trade surplus with the rest of the region, owing to the size of the economy. The trade ratio[1] between South Africa and the rest of the region has moved from 6:1 in 1999 to 9:1 in 2001.

In addition to the trade agreement, the South African government has concluded a new revenue-sharing formula with what is considered the oldest customs union in Africa, the Southern African Customs Union (SACU), which comprises Botswana, Lesotho, Namibia and Swaziland (BLNS). New proposals are coming into effect, which will change the SACU revenue-sharing formula. The main aim is to ensure that both revenue and development considerations are balanced. Currently, revenue sharing is based on implicit compensation to the BLNS for any cost-raising effect or loss of fiscal discretion resulting from the Customs Union. The new formula recommends moving from revenue based on imports to that based on excise taxes.

It is through this component that South Africa will receive most of its revenue, and can expect to retain around 80 per cent of total excise revenue collected. This will not only provide South Africa with improved revenue stability over time, but will ensure that most of the benefits accruing to SACU from excise policy decisions will flow into the South African treasury. Moreover, a development fund will be created from 15 per cent of total excise collections, and be distributed according to (the inverse of) each country's GDP/capita.

The introduction of a development component raises the revenue shares of the poorer SACU member states and should help to stabilise future flows to the BLNS. The size of this component will be reviewed and possibly adjusted over time if the revenue share accruing to any one country falls significantly.

South Africa has also benefited from the Africa Growth and Opportunity Act (AGOA), passed by the US legislature in 2000. Some of the major sectors that have benefited from AGOA are clothing and textiles as well as some agricultural and mining sectors.

1. Exports relative to imports.

South Africa's clothing and textile exports to the US rose by 28 per cent to $356 million in 2001 while there was a 17 per cent overall increase in exports to the US. An emerging problem with this agreement is that the US government has discretionary powers to change the tariff margins as South Africa's exports in certain products to the US grow dramatically.

FDI, which contributes about 10 per cent to gross domestic investment, changed from an inflow of R3.6 billion in the third quarter of 2001 ($418 million at the 2001 average exchange rate of R.8.6:$1) to an outflow of R7.3 billion ($847 million) in the fourth quarter, thus contributing to the weakness of the rand. As far as portfolio investment is concerned, the net outward movement of portfolio capital totalled R3.4 billion ($394 million) in the fourth quarter of 2001. This raised the total net value of international portfolio outflows to R67.6 billion ($7.85 billion) for the calendar year 2001 as a whole, compared to net outflows of R13.8 billion ($1.6 billion) in 2000.

Manufacturing exports growth has been quite robust in the last five years from 1996 to 2001 with over 6 per cent average annual growth in constant rands for the period. Moreover, the share of exports in manufacturing output has more than doubled in seven years (from 14 per cent in 1996 to 28 per cent in 2001). Manufacturing's share in total exports has risen from 35 per cent in 1994 to over 50 per cent at the end of the 1990s. The balance of trade for manufactures, while still negative, improved further in 2001 to a little under R31 billion ($3.6 billion) from R33.6 billion ($3.9 billion) in 2000. Capital goods, motor vehicles and transport equipment are the large net importers while metal products are the large net exporters.

Table 4 - Current Account Balance (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Trade balance	1.8	3.1	3.4	4.3	5.3	5.6
Exports of goods (f.o.b.)	19.9	21.8	24.8	26.9	28.7	29.9
Imports of goods (f.o.b.)	-18.1	-18.7	-21.4	-22.6	-23.4	-24.3
Services	-0.9	-0.5	-0.6	-0.5		
Factor income	-1.9	-2.4	-2.4	-3.4		
Current transfers	-0.4	-0.7	-0.7	-0.6		
Balance on current account	**-1.5**	**-0.5**	**-0.4**	**-0.2**		

Source: Authors' estimates and predictions based on South African Reserve Bank data.

On account of the rand depreciation, trade performance has been strong in 2001, and the current account deficit narrowed to 0.2 per cent of GDP. South Africa's trade performance remained robust in 2002, boosted by manufacturing exports –especially vehicles, transport equipment, machinery and electrical equipment and by gold exports, spurred by a rise in the average price of gold. The 2002 trade surplus is estimated to have been around 5.3 per cent. The trade balance is projected to improve further in 2003 thanks to the continued strong performance of exports.

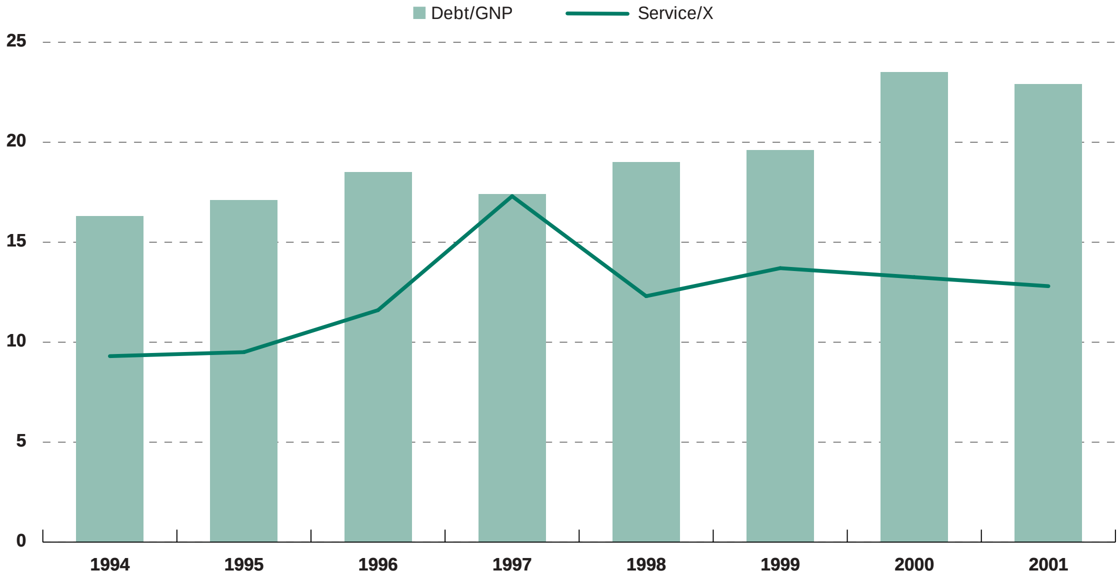
According to the World Bank's *Global Development Finance*, South Africa's total external debt fell to 22.9 per cent of GNP at the end of 2001 from 23.5 per cent in 2000 owing to the reduction in the dollar value of the rand denominated debt held by non-residents and a decrease in short-term foreign currency denominated debt.

Structural Issues

The privatisation programme in South Africa was embarked upon in 1996. There were no clearly defined time frames or "waves" as various government departments were involved in these processes, depending on the industry concerned (for instance the Departments of Public Enterprises; Communications; Transport; Electricity etc).

The process is currently on-going: some state-owned enterprises (SOEs) are fully privatised

Figure 7 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank.

(e.g. broadcasting stations); others are currently due for the listing of a second *tranche* (e.g. the telecommunications utility); and in some cases little or no progress has been made (the sale of a chain of resorts to a Black Economic Empowerment (BEE) partner was abandoned in 1999 when the company was unable to raise the funds required. Three years later approximately 20 per cent has been sold in the first leg of a three-step process).

The privatisation process in South Africa has been largely focused on divestiture of "non-core businesses", such as resorts, broadcasting stations and related services in the transport sector, as well as the restructuring of utilities by selling minority stakes to so-called strategic equity partners and BEE groupings. Owing to the slow pace of privatisation, the government has not been able to expedite as much revenue as that set out in the 2001 budget, which was committed to raising R18 billion from privatisation, but in fact raised an estimated R2.3 billion.

In April 2001 a further 3 per cent of Telkom, South Africa's only fixed-line telecoms operator, was sold to the BEE grouping, Ucingo. A public listing of the second *tranche* of Telkom shares (which is estimated to be around 20 per cent) was due in 2000/2001 but was delayed due to adverse market conditions. The listing is expected to take place in the current financial year (2002/2003) and will involve a primary listing on the Johannesburg Stock Exchange and a secondary listing on the New York Stock Exchange.

In 2001, much of the debate on telecommunications services in South Africa centred on the licensing of a second, and possibly even third, network operator. Eventually, it was decided, in the Department of Telecommunications' policy for the post-exclusivity period, to limit the number of national network operators to one additional operator, whose licensing conditions include a BEE partner and to absorb the telecommunication subsidiaries of two parastatals: Eskom and Transnet.

Policy credibility, or at least, policy predictability have suffered from the wrangling over a second or third national operator as well as from the postponement of Telkom's listing.

Transnet, South Africa's largest parastatal, dominates the South African transportation sector, controlling

13 companies involved in transport and allied services, including the railway parastatal, Spoornet, which is its largest division. Transnet was incorporated in 1990.

The South African government is aiming for a deep-level restructuring of the railway industry, involving corporatisation of different divisions of the parastatal, sale of equity and concessioning. Spoornet's corporatisation will involve the creation of several autonomous corporate entities, which will be operated as concessions, sold through an Initial Public Offering (IPO) or transformed into a joint venture with a strategic equity partner. Eligible for concessioning are two dedicated heavy-haul links for coal and iron ore (Coallink and Orex), luxury passenger services (LuxRail) and branch lines (Link Rail). Eligible for IPO or joint venture are the general freight business (GFB) and the network operator (Rail & Terminal Services).

These changes are aimed at general commercialisation of the freight services, whilst the use of the concession vehicle is specifically aimed at attracting expertise and private capital required for restructuring. Once again, the emphasis has been placed on privatisation and strategic equity partners in lieu of the introduction of (intra-modal) competition, thereby further reducing the efficiency incentives to pressures from inter-modal competition.

In the case of aviation, a 20 per cent equity stake in the national airline, South African Airways, was sold to Swissair in 1999, but due to its financial collapse was bought back by Transnet in 2002. A stake in the Airports Company of South Africa (ACSA) has been sold to *Aeroporti di Roma* and a further "Initial Public Offering" of shares is planned to advance privatisation.

Spoornet has met stiff competition from road hauliers since the road transport industry was deregulated in 1988. The limit on truck haulage is currently among the highest in the world (56 tonnes) and as a result of uncompetitive railway tariffs, road transport accounts for 80 per cent – compared to rail at 20 per cent – of the overland freight transport market.

In a bid to shift freight and passengers back from the road onto the rail network, the government intends to impose stricter controls on all road transport (in particular weight restrictions) to support its restructuring of the rail industry. Officially, mounting maintenance costs to South African roads resulting from heavy cargo has inspired this policy but the general view is that it is an ill-disguised attempt to boost the volumes carried by Spoornet. Toll road concessions have been sold for sections of major routes.

As far as maritime transport is concerned, Portnet, the Transnet division for the ports in South Africa, will be split into two separate entities, one responsible for port operations and one responsible for licensing and infrastructure (the National Ports Authority of South Africa). The National Ports Authority will be responsible for changing the tariff structure in years to come, under the supervision of an independent ports regulatory body, which is yet to be established.

The restructuring of Portnet is aimed at leveraging private investment for port infrastructure backlogs and efficiency improvements required for increased trade. The private sector's involvement is further increased by the introduction of long-term concessions on certain operations such as cargo handling.

In the case of energy, the government aims to sell approximately 30 per cent of Eskom's generation capacity in its privatisation drive. As a first step, Eskom was converted from a public enterprise, led by an electricity council, into a public company with a share capital, liable for taxes and dividends in 2002 (Eskom was henceforth known as Eskom Holdings). The disposal of 10 per cent of Eskom's capacity to BEE players is due in financial year 2002/2003 and soon after an additional 20 per cent would be sold to a strategic equity partner to secure foreign direct investment in Eskom.

Apart from the big utilities, the government is also moving ahead with transferring other assets that it owns to the private sector. It signed a deal with a BEE company called Zama Resouces to sell off some of its state-owned forestry deals to the value of R335 million

($38.9 million). (This is currently shrouded in controversy, especially after a failed attempt to sell off Aventura Resorts.)

The improvement, maintenance and expansion of infrastructure remain an important cornerstone of government policy, as highlighted by the 2002/03 budget.

The policy of providing universal access to telecommunications, especially the provision of entrepreneurial opportunities to rural communities, has only partially succeeded. Approximately 2 million of the 2.67 million new telephone lines have been disconnected because poor households could not afford line rentals and call charges, or they had switched to cellular phones.

Another important development is the Afrilink initiative, which involved installing undersea cables linking South Africa (and West Africa) with Europe and Malaysia in order to improve Internet access and bandwidth. Indeed, the Afrilink initiative launched in June 2002, consists of two major projects: a South Africa/Far East connection from southern Africa to Mauritius, India and Malaysia, and a west African one northwards to Portugal and Europe. The European-South African component of the massive international project has a capacity of 120 GB, taking 5.8 million simultaneous telephone calls.

Notwithstanding South Africa's highly developed financial sector, some important developments have taken place that have begun to create vulnerability and instability in parts of the financial sector. Moreover, as a consequence of these mini crises, the government has reviewed its approach to financial regulation.

Financial instability was induced by the collapse of a few banks, beginning with Saambou. This has created some focus on the approach of the South African Reserve Bank (SARB) to bank bailouts. Although placing banks under curatorship is not new to the financial sector in South Africa, Saambou was unusual in the sense that it represents a bank with a fairly large depositor and home-loan base, and was considered the biggest banking collapse in SA. At around the same time, one of South Africa's largest banks, Absa, saw its micro-lending arm, Unifer collapse.

Developments in the financial sector this year have put financial regulation in the spotlight again. Banks are currently regulated by the South African Reserve Bank while an independent Financial Services Board (FSB) regulates non-banking financial services. The South African Minister of Finance, Trevor Manuel, announced the need for a single regulator. It is envisaged that these institutions will merge before 2003. The fact that the situation at Saambou reached crisis proportions was, according to some analysts, because of split regulation. This led to some contagion, as another bank, the Board of Executors (BoE), also started showing signs of collapse. The recent strife in the micro-lending industry partially stemmed from micro-lending disasters.

Second-tier players, Brait and CorpCapital, have abandoned their banking licenses, and BoE and Saambou are to be absorbed by two of the four big banks. Once these are taken over, ABSA, FirstRand, Nedcor and Stanbic will own 85 per cent of the industry's capital and reserves.

The consolidation of regulatory capacity culminating in a single regulator, as well other factors such as the introduction of a Deposit Insurance Scheme (currently under consideration) would contribute to the long-term financial stability of the SA financial sector. The close of smaller banks has raised some concerns that lack of competition does remain a problem – signalling that financial stability or consolidation may come at some cost to consumers.

The collapse of major international firms as well as the failure of organisations in South Africa, such as Leisure Net, Regal Treasury Private Bank, Saambou and Unifer, highlighted the need for good corporate governance. The release of the King II Report on Corporate Governance is an important development. It focuses additionally on some other issues such as enforcement of better financial reporting over a period of time and others. A major emphasis of the King II report is to balance performance and compliance. King II follows King 1 released in 1996.

The government has also introduced the Strategic Industrial Projects (SIP) Incentive Programme, in an attempt to raise the levels of private sector investment in innovative, profitable and wealth-creating business enterprises, while at the same time creating employment opportunities in the industrial sector. At the heart of the SIP programme is an amount of R3 billion in the form of tax allowances, effective for a 4-year period from 1 August 2001. These allowances are aimed at lowering the cost of investing in critical industrial projects, bearing in mind the specific requirements of prospective investors.

Political and Social Context

The African National Congress (ANC) continues to enjoy popular support in South Africa. A major challenge is to ensure that a significant opposition develops beyond the current primarily white opposition party. The current government continues to balance the interests of its alliances, against the backdrop of a still fragile democracy and high levels of inequality in the economy.

Formidable challenges face South Africa as unemployment continues to rise with increases in HIV infection rates and an increasing widening of income inequality. However, some positive developments are beginning to address these problems.

Unemployment in the formal sector is still rising with a 1.4 per cent (65 000 workers) decline in formal sector employment in 2001, and continued signs of decline in 2002. Since 1990, an estimated 1 million jobs have been lost. One concern has been the increase in unit labour costs owing to increasing wages, without corresponding increases in productivity. However, the major reasons behind unemployment are skills constraints and low demand in the economy. The upward pressure on wages continues. This is partly a response to increasing food prices, which rose to 14 per cent, compared with 7 per cent for other goods and services. One of the major concerns of the labour movement about wage moderation in the economy when food prices rise is that it is likely to worsen poverty and inequality.

After almost eight years of democratic government, major pressures for distribution in favour of the poor in the economy still exist, as exemplified by a range of policy initiatives to promote BEE, such as the minerals bill, new wage legislation to introduce minimum wages for domestic workers, as well as new developments in agriculture. One topic under discussion is whether targets should be set for the distribution of land during the next 10 to 20 years to poor previously disadvantaged people. Although some progress has been made, change is still very slow.

One of the most important political developments, not only in South Africa, but for Africa as a whole, is the birth of the New Partnership for Africa's Development (NEPAD), born on 23 October 2001 in Abuja, Nigeria. In essence, NEPAD is an initiative by African leaders to bring peace, democracy, and good governance to the continent with the objective of promoting development, foreign aid and investment and thereby securing the integration of the African economy into the world economic order. It is based on the preconditions for development that, in addition to regional integration and democracy, also include political, economic and corporate governance. The priority sectors that need to be addressed are the infrastructure, information and communication technology, human development and poverty reduction, agriculture and diversification of exports.

NEPAD has specific importance for South Africa, as the country and its president are central to the conception and sustainability of the initiative. This also has an important bearing on South African politics. Core to the NEPAD initiative are the concepts of accountability and good governance. What this means is increased pressure on governments in Africa to address a multitude of issues that need to be resolved when the mechanisms that will drive implementation of the initiative get underway. One of these mechanisms is a peer review that will allow other states to put pressure on members of NEPAD to adhere to objective criteria.

The NEPAD initiative presents an interesting dilemma for the South African President in view of South Africa's tempered position on Zimbabwe, as well as increasing concerns about governance and corruption.

It is estimated that some 5 million people are HIV-positive in South Africa. Twenty-five per cent of pregnant women testing at government facilities are HIV-positive. There have been important developments in the last year in response to the Aids crisis. Firstly, the South African government confronted international pharmaceutical companies in a court battle in order to get access to cheap aids drugs in contravention of an intellectual property rights agreement in mid-2001.

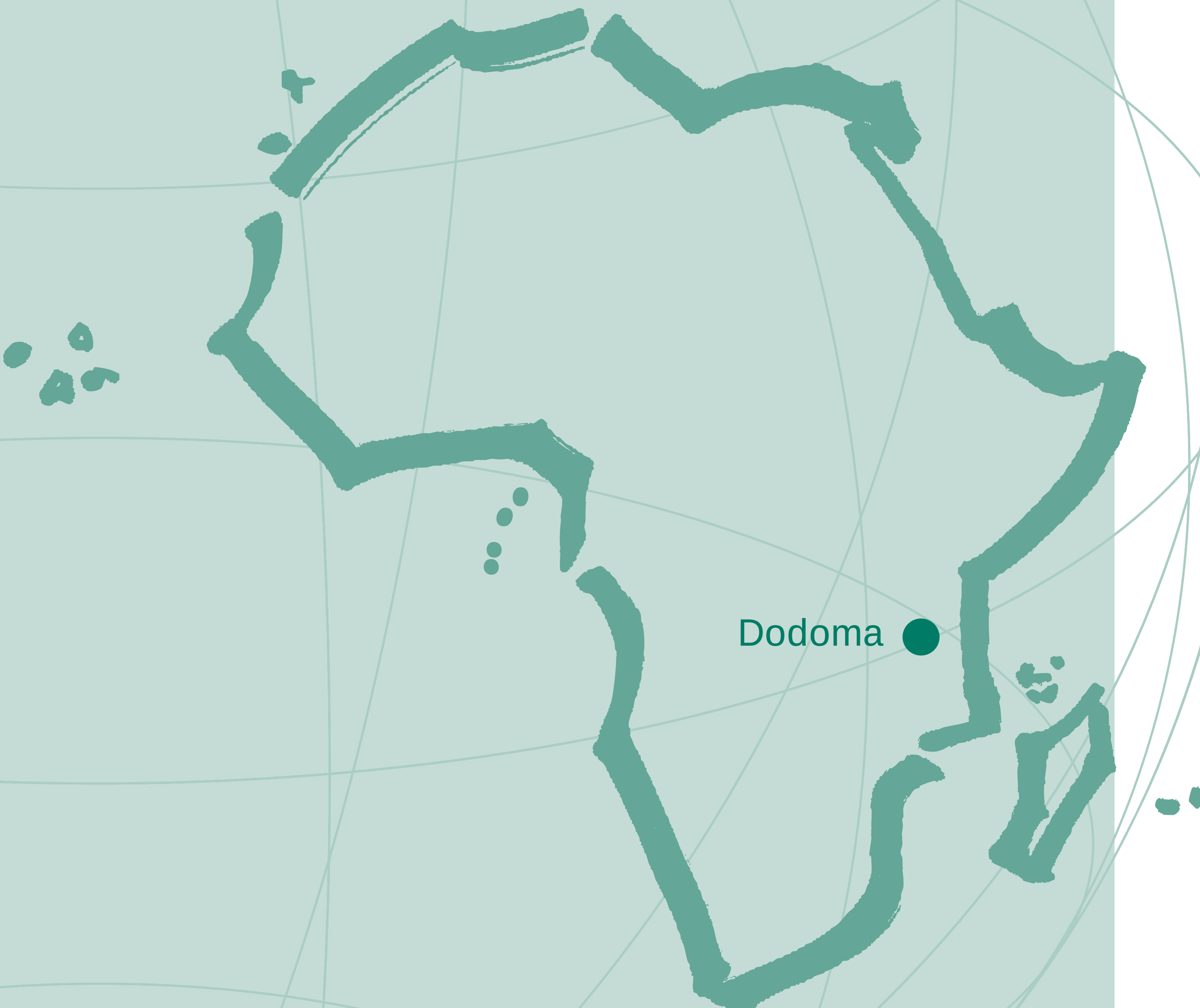
At the end of 2001, the government lost a high court case on antiretroviral provision against a civil lobby group. Indeed, President Mbeki's position was that there was no cure for HIV/AIDS and emphasised that the key to preventing Aids lay in poverty eradication policies. The Constitutional Court in South Africa ruled in favour of the Treatment Action Campaign (TAC), compelling the government to provide Nevirapine to HIV-positive pregnant women. Moreover, a report released in February 2002 stated the non-toxicity of the drug Nevrapine and raised the necessity of the use of antiretroviral treatments to pregnant women as part of government's prevention programme. Such a position, which was supported by the former President Nelson Mandela, further weakened the government's antiretroviral stance. The government is now obliged to uphold the court ruling - this partly reflects the robustness of South African democratic and constitutional processes. This landmark case demonstrates how the Constitutional Court can become both a significant opposition to government as well as make governments more accountable to the public. It should be noted, however, that since the Constitutional Court's judgement, the government has been slow in meeting its obligations. Nevirapine and counselling were available only in 18 test areas in September 2002.

Education expenditures in South Africa currently comprise approximately 8 per cent of GDP. This partly reflects the government's commitment to addressing the apartheid education backlog. The government has taken major initiatives to improve the efficiency of expenditure on education. For example, a bill has been passed to merge tertiary institutions in South Africa, based on the fact that the country has too many institutions. This has led to the merger of universities, reducing their number from 36 to 22. Some initiatives have been taken to improve pass rates at secondary level too.

Notwithstanding attempts to improve the efficiency of educational expenditure – some formidable challenges remain, specifically the effective redistribution of resources to poverty-stricken areas. Close to 40 per cent of schools in the country have no electricity, 25 per cent lack clean water, 60 per cent have inadequate sanitation and 40 per cent are without telephones.

As mentioned earlier, the major challenge faced by the country remains the development of the country's skill base. An important initiative taken to deal with the daunting problem of skills is the launch of the Skills Development Act. However, the relatively bureaucratic structure of Sector Education and Training Authorities (SETAs) is reducing their potential effectiveness. It is important that while the skills development strategies are being implemented, the need for access to skills from abroad should not be encumbered. However, amendments to the Aliens Control Act, which governs the movement of persons into South Africa, have not been without controversy. Given the difficulty regarding the employment of skilled foreigners in South Africa, amendments to this Act were proposed, but it remains to be seen whether the new Immigration Act will facilitate the movement of skilled persons to South Africa.

Tanzania



key figures

• Land area, thousands of km^2	945
• Population, thousands (2001)	35 965
• GDP per capita, \$ (2001)	260
• Life expectancy (2000-2005)	51.1
• Illiteracy rate (2001)	23.2

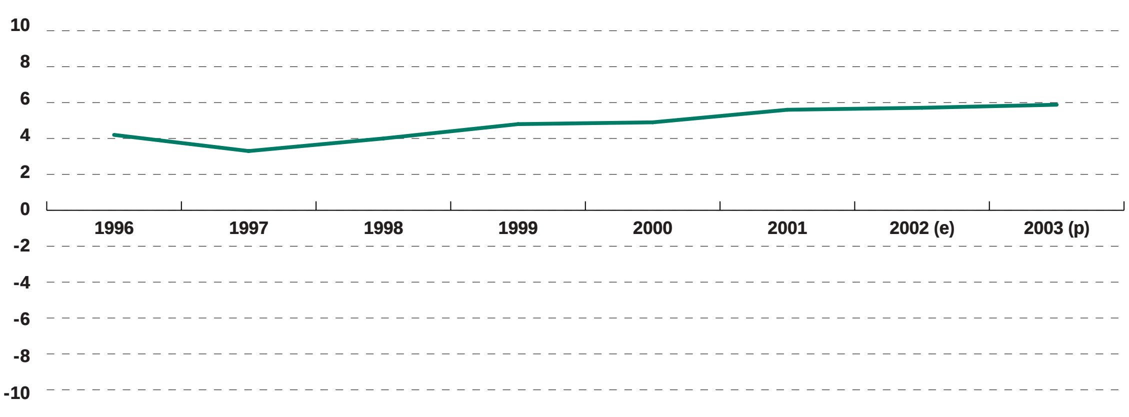
Tanzania

THE TANZANIAN ECONOMY IS SHOWING strong growth as a result of continuing improvement in agricultural production and strengthening macroeconomic fundamentals. In 2001, real GDP growth continued the recent upward trend reaching 5.6 per cent from a yearly average of 4.5 per cent since 1995. The outlook on growth is stabilisation, with real GDP growth estimated at 5.7 per cent in 2002, and projected to moderate to 5.9 per cent in 2003. The improving growth performance since 1995 has been accompanied by fiscal orientation that has enabled increased budgetary allocation towards priority sectors for poverty alleviation, in accordance with Poverty Reduction Strategy Papers (PRSP) targets. Prudence in monetary management has brought monetary expansion under control and has contributed to a downward trend in inflation, which is expected to be maintained in 2002 and 2003. The external position of Tanzania was precarious in 2001 as a result of poor export performance, which emanated from low commodity prices. The difficult external situation is expected to continue in 2002 and 2003. At the same time, debt cancellation following from Tanzania's Heavily Indebted Poor Countries (HIPC) decision point agreement with the major creditors is expected to contribute to easing external pressures on the country. Tanzania is making progress with the structural transformation of the country, with privatisation of state-owned enterprises a major plank in the government's platform for transforming the economy.

Fiscal management has enabled increased budgetary allocation for poverty alleviation in Tanzania

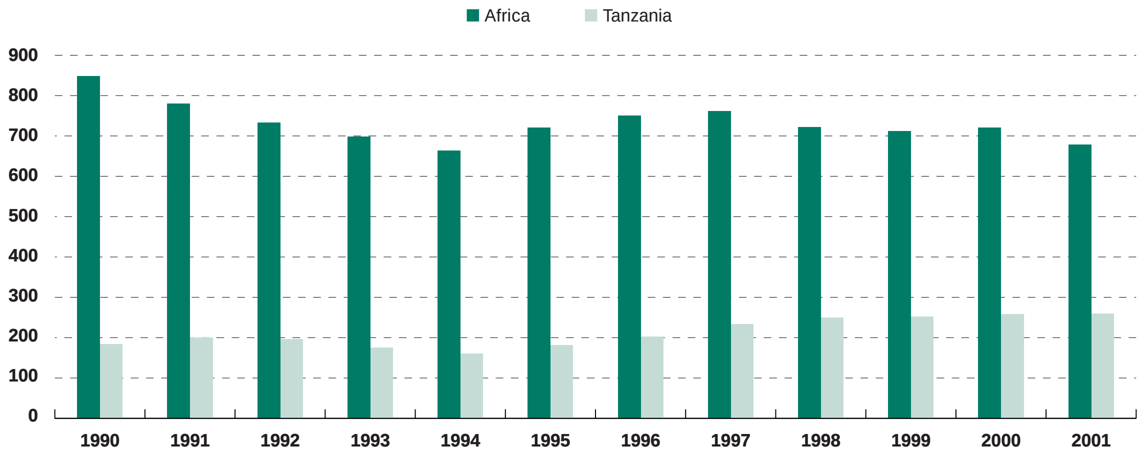
However, after nine years in the privatisation programme, Tanzania is unlikely to meet its completion target. Although the government has made a renewed effort to push ahead with privatisation since starting its second phase of the programme (2000-2004), the pace is being slowed by several problems including resistance from the public and trade unions on management of enterprises proposed for privatisation. The privatisation process has also not been helped by the fact that the government has had to retake control of some privatised companies that have failed in private hands. The political environment in Tanzania is quite stable with the government making renewed efforts to resolve problems that could create political instability in the country. The government is also tackling, though belatedly, governance-related problems to deepen the democratic orientation of the country.

Figure 1 - Real GDP Growth



Source: Author's estimates and predictions based on IMF data.

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



Source: Authors' estimates based on IMF data.

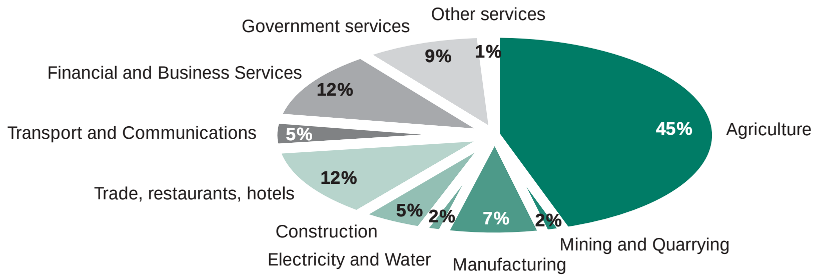
Recent Economic Developments

The Tanzanian economy continued to show strong economic growth performance in 2001. Real GDP growth was estimated at 5.6 per cent in 2001, up from 4.9 per cent in 2000. Tanzania's growth performance in 2001 maintained the upward trend from the annual average growth rate of 4.2 per cent during 1995-1999. The increase in economic growth in 2001 was due mainly to improved agricultural performance buttressed by strengthening macroeconomic fundamentals.

Agriculture remained the dominant sector of the economy, contributing about 45 per cent of GDP in 2001. The sector grew by 5.5 per cent in 2001 compared with 3.4 per cent in 2000 mainly as a result of improved weather conditions. The improved agricultural output was reflected in all the major sub-sectors. The fisheries sub-sector expanded by 7 per cent in 2001 compared with 6.4 per cent in 2000 due largely to market expansion, following the lifting of the ban imposed on Tanzanian fish products by the EU at end-2000. In cash crop production the output of coffee, tea, lint cotton and cashew increased while tobacco output decreased on account of declining tobacco prices and poor crop husbandry. The poor crop husbandry was the result of lack of extension services in tobacco growing areas. In addition, prices of fertiliser and other farm inputs were high forcing farmers to reduce fertiliser application. Food crop production grew by 5.9 per cent in 2001 compared with 2.9 per cent in 2000. Most food crops recorded significant increases on the 2000 levels. Maize output was 2.24 million tonnes in 2001 from 2.12 million in 2000; paddy rice doubled to 992 000 tonnes from 476 000; wheat output increased from 32 000 tonnes to 118 000 tonnes; whilst pulses achieved moderate increase from 584 000 tonnes to 674 000 tonnes. Nonetheless, Tanzania faced a difficult food situation in 2001 and early 2002. The FAO global information and early warning system reported that in the 2001/02 marketing season (June-May) Tanzania ran a cereal deficit of around 840 000 tonnes necessitating the importation of about 600 000 tonnes of cereal and about 150 000 tonnes of food aid. The factors behind the difficult food situation include: drought in some parts of the country; pests and increased demand for cereal from neighbouring countries. Also, poor infrastructure made it difficult for cereals to be transported from the usually surplus areas in the south and south-west to the areas of shortages, mainly in the north, central and eastern parts of the country.

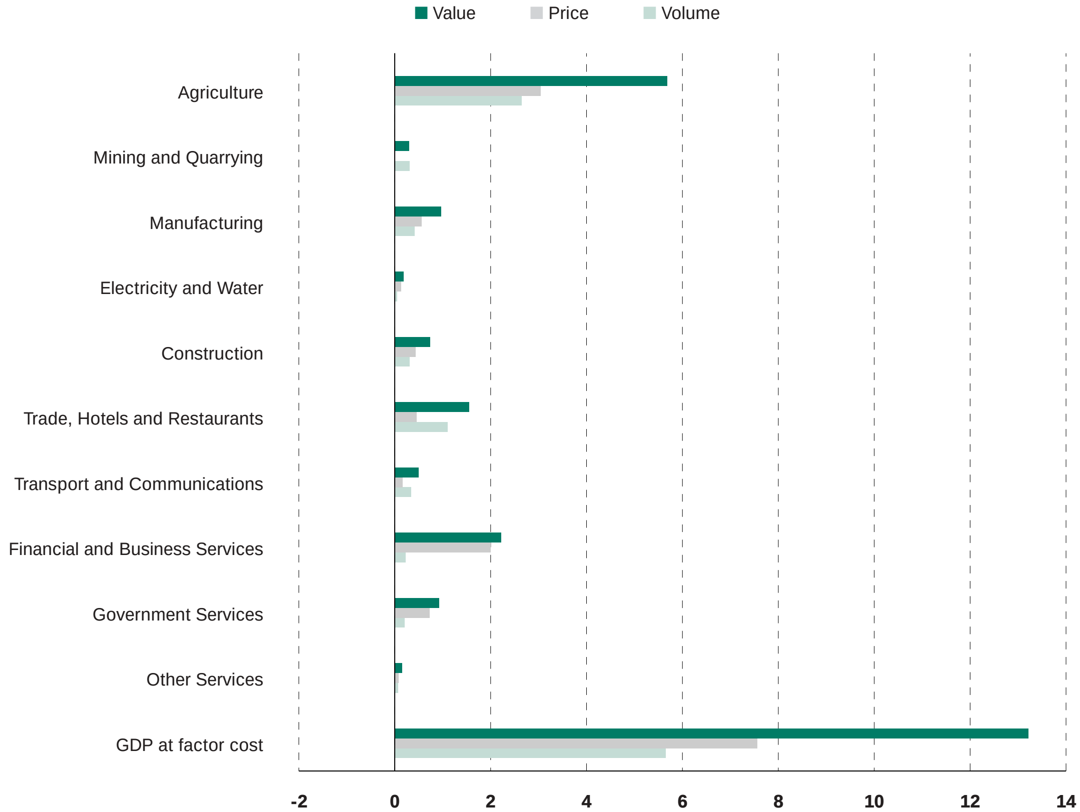
The industrial sector accounted for about 11 per cent of GDP in 2001. Manufacturing, which is the main sub-sector, was responsible for 7 per cent of GDP. Manufacturing experienced a marginal increase in output, with a growth rate of 5 per cent in 2001 compared with 4.8 per cent in 2000. This increase was

Figure 3 - GDP by Sector in 2001



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

Figure 4 - Sectoral Contribution to GDP Growth in 2001



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

made possible by higher electricity generation as a result of good rains experienced in areas where hydro electricity is generated. Production increases were experienced in industries such as iron sheet, paint and cement. The mining and quarrying sub-sector maintained a strong growth rate at 13.5 per cent in 2001 from 13.9 per cent the year before. The marginal decline in the growth rate in 2001 was due to reduced volume of production of some minerals especially gemstones and diamonds.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**19.8**	**15.5**	**17.6**	**17.0**	**17.7**	**17.7**
Public	3.4	3.1	6.0	5.4	5.6	5.5
Private	16.4	12.4	11.6	11.6	12.1	12.2
Total Consumption	**97.6**	**97.2**	**90.8**	**91.6**	**92.5**	**93.6**
Public	15.3	7.0	6.6	6.3	6.7	6.7
Private	82.3	90.2	84.1	85.3	85.8	86.9
External sector	**-17.4**	**-12.7**	**-8.4**	**-8.6**	**-10.2**	**-11.3**
Exports	24.1	13.8	14.7	15.9	16.6	16.5
Imports	-41.5	-26.5	-23.1	-24.5	-26.8	-27.8

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

The services sector, which accounted for about 44 per cent of GDP in 2001, was a mixed bag in growth activity. The trade sub-sector, including hotels, retail and wholesale trade achieved a growth rate of 6.5 per cent in 2001 against the rate of 6.7 per cent in 2000. Trading activity in 2001 gained from the government's strategy of promoting private sector activity. The tourist trade was mixed in 2001, with an increased number of visitors but less receipts. Although the number of tourists visiting Tanzania increased to 525 122 in 2001 from 501 699 in 2000, the receipts in tourism dropped to $725 million from $739 million over both years. The reduction in tourist receipts was as a direct result of the September 11 events reducing American and European tourists who are usually the biggest spenders. Growth in the construction sub-sector remained strong at 6.7 per cent in 2001, though at a reduced rate from 8.4 per cent in 2000 with the reduction in growth due mainly to a decline in the construction of residential buildings. Similarly, growth in financial and business services decreased to 3.3 per cent in 2001 from 4.7 per cent in 2000 despite an increase in the number of companies offering financial services. The decline in growth was the result of government monetary policy that slowed down activity in the sub-sector. Growth in public services, especially education and health, increased from 5.6 per cent and 5.1 per cent respectively in 2000 to 6.2 per cent and 5.6 per cent respectively in 2001. These services continued to receive government priority under Tanzania's HIPC initiative implementation.

The expenditure components of GDP show that the recent upward trend on gross capital formation was maintained in 2001. Total consumption also increased in 2001, with increases in both private and public consumption. The resurgence of total consumption in GDP emphasises Tanzania's dependence on foreign savings for investment. The recent declines in public consumption, which suggested that Tanzania was moving away from its socialist past, when public sector activities underpinned growth, appeared to be reversed in 2001. The outlook on the demand structure of GDP is further increases in consumption (public and private) that will lead to decline in gross investment.

Macroeconomic Policy

Fiscal and Monetary Policy

Tanzania's recent fiscal policy has been directed at three main objectives: *i)* to control the growth of the budget deficit and achieve fiscal stability; *ii)* to direct more fiscal resources to priority sectors in accordance with the country's Poverty Reduction and Growth Facility (PRGF) agreement; and *iii)* to reduce the incidence of waste and abuse in the public sector. In all three objectives, Tanzania has made significant headway in recent years, which continued into 2001/02. The positive results have been achieved by strict adherence to a cash budgeting system and large inflows of external assistance, without which Tanzania would have suffered large budget deficits, by reason of the country's poor effort at domestic revenue mobilisation. At the same time, Tanzania has been implementing fiscal measures to improve the domestic effort at financing the budget as well as to control expenditure. In 2000/01, the government enacted two laws for revenue mobilisation and expenditure management. These were the "Public Finance Act 2001"' and the "Public Procurement Act 2001". The Acts, which became operational in fiscal 2001/02 aimed at improving supervision, control, and auditing of public funds and the acquisition of goods and services by the government. In 2001/02 the government undertook further measures aimed at consolidating tax reforms, including expansion of the tax base, improving tax administration to enhance voluntary compliance, and elimination of tax evasion. Significantly, in an effort to enhance revenues, VAT exemptions for the government and its institutions was abolished. Also, the government strengthened its control over tax exemptions for NGOs, religious and charity organisation.

The revenue measures put in place so far yielded some dividend as the tax/GDP ratio rose to an estimated 11.1 per cent in 2001/02 from 10.7 per cent the previous year. The tax revenue sources that improved in 2001/02 include income tax, VAT on domestic goods, and excise duty. Other revenue sources such as VAT on imported goods, and customs duty were unsatisfactory. This was on account of difficulties encountered by suppliers and agents following the issuing of the new public finance and procurement regulations and reforms of customs structures that were not easily understood.

During 2001/02, the government's expenditure policies focused on reduction of poverty through increased budgetary allocations to the priority sectors involved in the poverty reduction strategy. The government's total expenditure was estimated at 18.4 per cent of GDP in 2001/02 compared with 16.9 per cent of GDP in 2000/01. The government significantly made headway in its policy of directing expenditure towards priority social services for poverty alleviation. This was achieved at the expense of capital spending, which fell to 3.2 per cent of GDP in 2001/02 from 3.5 per cent of GDP the year earlier. The government was unable to push up capital spending due to shortfalls in local funds and low disbursement of foreign funds, coupled with what the government described as, lack of information on foreign funds disbursed directly to donor-funded projects outside the budget system.

The budget outcome remained relatively stable in 2001/02 showing an estimated overall deficit of 1.1 per cent of GDP, the same outcome as the previous year. The primary balance also remained stable at 0.4 per cent of GDP in 2001/02, from 0.6 per cent of GDP in 2000/01. The government refrained from building up new domestic arrears by financing the entire budget deficit in 2001/02 from external sources. The outlook on the budget situation is stability with the overall budget deficit falling slightly to an estimated 1per cent of GDP in 2002/03.

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

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Total revenue and grants[b]	**15.0**	**14.3**	**15.4**	**15.8**	**17.3**	**16.7**
Taxes	11.3	10.3	10.0	10.7	11.1	11.2
Grants	2.5	2.8	4.1	3.8	5.0	4.3
Total expenditure and net lending[b]	**17.0**	**15.5**	**17.1**	**16.9**	**18.4**	**17.7**
Current Expenditure	14.1	12.9	11.6	13.0	14.7	13.8
Excluding interest	*10.7*	*9.5*	*9.7*	*11.3*	*13.2*	*12.5*
Wages and salaries	5.0	4.4	4.0	4.1	4.2	3.8
Interest on public debt	3.4	3.4	1.9	1.7	1.5	1.3
Capital expenditure	2.5	2.3	5.3	3.7	3.5	3.7
Primary balance	**1.4**	**2.2**	**0.3**	**0.6**	**0.4**	**0.3**
Overall balance	**-2.1**	**-1.1**	**-1.6**	**-1.1**	**-1.1**	**-1.0**

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

The monetary policy objective of the Bank of Tanzania (BOT) has been to curb inflation through a containment of monetary expansion, and to improve the official reserve levels of the country. The BOT has had a successful tract record in controlling the growth of money supply over the past five years, with the rate of monetary expansion averaging 10.2 per cent per annum during 1996-2000. The monetary authorities were successful in reducing further the growth of monetary aggregates to about 8 per cent in 2001. In response to the tight monetary policies, the rate of inflation has been on a downward trend, with the year-to-year rate declining from 6 per cent in 2000 to 5.2 per cent in 2001. The recent downward trend of inflation has been helped by improving domestic food production and the large food imports that relieved the food situation. The index of food inflation declined to 6.1 per cent in 2001 from 7.2 per cent the previous year. The outlook on inflation is further reduction with the annual average rate estimated at 4.8 per cent in 2002, with a projected fall to 4.2 per cent in 2003. Interest rates have also been on a downward trend. The weighted average of the rate on the 90-day treasury bill fell from 8.4 per cent in 1999/00 to 4.6 per cent in 2000/01.

Tanzania operates a market-determined foreign exchange regime. The BOT intervenes in the foreign exchange market only to smooth large seasonal fluctuations. The country's foreign exchange market experienced some difficult situations in 2001. As a result of a drop in export earnings in the first half of the year, caused by delays in exporting cashew nuts, the shilling fell sharply. The shilling again came under pressure during November and December, owing to lower than anticipated tourist receipts, following the events of September 11. Over the year as a whole the shilling depreciated by about 14 per cent against the US dollar. The rate of depreciation has since slowed down, with the shilling depreciating by only 2 per cent against the dollar during the first half of 2002.

External Position

Tanzania has maintained its liberal external environment. The recent external trade policy has been pursued within the framework of the Southern African Development Community (SADC) trade protocols and the East African Community (EAC) Treaty focused on achieving regional integration. Tanzania pursued further measures to enhance the external environment in 2001/02. The government made amendments to its customs tariff structure, reducing the import tariff band from 4 to 3. Moreover, consistent with the rules of WTO, Tanzania changed its procedure for evaluating goods for taxation purposes, adopting the procedure known as the "Agreement on Customs Valuation". Further, Tanzania has reduced substantially its import tariffs on cross-border trade with its EAC members to motivate legitimate trade among East Africans. Under the arrangement with other EAC member countries, goods exported from Kenya or Uganda to Tanzania will benefit from a reduction in import duty of 80 per cent.

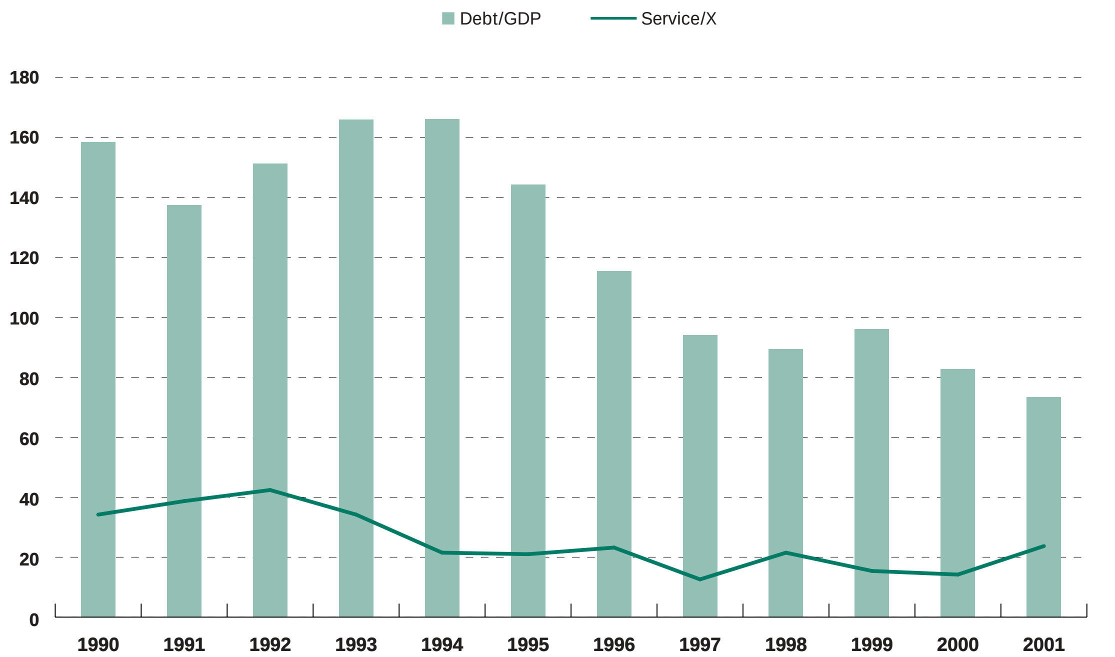
Tanzania's external position showed mixed results in 2001. Although both exports and imports rose as a proportion of GDP in 2001, a larger expansion in imports caused the trade deficit to rise from 7.4 per cent of GDP in 2000 to 7.6 per cent of GDP in 2001. During 2001, total exports of goods increased to $738.9 million from $588.4 million in 2000, with the increase coming from minerals, manufactured goods, fish and fish products and horticultural products. Mineral exports continued to dominate total exports, accounting for about 39 per cent with gold exports commanding the lion's share of about 91 per cent in 2001. Exports of gold gained from the start of gold production by Kahama Gold Mining Corporation during the second half of 2001. Manufactured exports increased by about 30 per cent in 2001 as a result of the ongoing revamping of the industrial sector that attracted private investors. Conversely, in 2001 receipts from Tanzania's traditional export commodities including coffee, cotton, tea and cashew nuts fell by about 21 per cent. The export prices of these commodities continued to fall in world markets, which contributed to lower export volumes in 2001. The persistent low export prices have kept domestic producer prices low with sometimes delayed payments to farmers. Consequently, producers have either paid less attention on their respective crop farms or replaced them with some other non-exportable crops. Total imports of goods increased 25 per cent in 2001 rising from $1.22 billion in 2000 to $1.52 billion. The increase was attributed largely to a rise in imports of capital and intermediate goods. Imports of capital goods increased 27.3 per cent due to a surge in imports of transport equipment, building and construction equipment and machinery. This surge was on account of ongoing investments in the country, particularly in mining and telecommunications. Imports of intermediate goods increased 51.1 per cent in 2001 partly owing to an increase in oil and industrial raw materials imports. The increase in oil was as a result of volume rather than a price effect, and was in line with the introduction in March 2001 of increased domestic demand following expansion in economic activity in most sectors. The deterioration in the trade account contributed to the current account deficit rising to 4.4 per cent of GDP in 2001 from 4.2 per cent of GDP the year before. The other component of the current account that was also poorer in 2001 was current transfers, which remained significant at $442.8 million but was down on the $465.8 million achieved in 2000. The services account showed a deficit of $98.9 million in 2001 compared with a deficit of $92.8 million in 2000. The deficit in 2001 was attributed to higher service payments in transportation, communication, insurance, financial services, computer and information services, royalties and fees and other business services largely associated with the on-going market oriented economic policies of Tanzania. The

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade Balance	-12.5	-9.6	-7.4	-7.6	-8.8	-9.5
Exports of goods (f.o.b)	13.0	6.3	7.3	8.3	8.7	8.7
Imports of goods (f.o.b)	-25.5	-15.8	-14.7	-15.9	-17.4	-18.1
Services	-4.1	-2.6	-1.0	-1.1		
Factor income	2.1	-0.9	-0.9	-0.5		
Current transfers	6.4	3.9	5.1	4.7		
Current account balance	**-8.1**	**-9.2**	**-4.2**	**-4.4**		

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

Figure 5 - Stock of Total External Debt (percentage of GDP)



Source: World Bank.

services account also suffered from lower tourism receipts, as a result of the impact of 11 September on the tourist trade in Tanzania. The income account showed a deficit of $44.1 million in 2001, which was an improvement on the deficit of $83.3 observed in 2000. The improvement in 2001 derived from decreased income payments, mainly from a decline in the scheduled interest payments as part of the HIPC initiative package. The outlook on the external situation is further deterioration in the trade deficit, which is estimated to widen to 8.8 per cent of GDP in 2002 and projected at 9.5 per cent of GDP in 2003 as imports rise faster amidst stagnation in exports.

The total external debt of Tanzania at end-December 2001 stood at $7.37 billion. The profile of the debt stock by creditor category indicates that 59.9 per cent is owed to multilateral creditors; and 31.9 per cent is owed to bilateral creditors. Commercial debts and other creditors account for 5.3 per cent and 2.9 per cent respectively. Tanzania reached the HIPC completion point in November 2001. Following from the decision point agreements debt relief from all creditors will amount to $2.02 billion in NPV terms, about $3 billion in nominal terms. In January 2002, Paris Club creditor countries followed up their HIPC completion point agreement with Tanzania to cancel debt worth $737 million in NPV terms. The amounts cancelled represent 90 per cent of pre-cut off date commercial debt. Under this arrangement, Tanzania became the fourth country after Uganda, Bolivia and Mozambique to complete the Paris Club process of debt reduction under the Enhanced HIPC initiative.

Structural Issues

The government of Tanzania has reaffirmed its commitment to transform the economy by promoting and strengthening the participation of the private sector, both domestic and foreign. In line with its objective of promoting private participation in the economy, the government has launched the Corporate Plan (2001-2006) intended to revamp the National Investment Act (1997) and capitalise on the increasing inflow of FDI to the economy.

The restructuring and privatisation of state-owned enterprises (SOEs) remains a major plank of the government's attempt to transform the economy. Tanzania started its privatisation programme in 1992 and established by law a year later, the Presidential Parastatal Sector Reform Commission (PSRC), to oversee the programme. Tanzania embarked on privatisation as part of an effort to break with the socialist past of the country in which every part of the economy was controlled by the state. The major motivation was to loosen the colossal impact of the loss-making SOEs on the economy, as the government had to provide huge subsidies to keep them afloat. The initial programme (1993-99) focused on divesting small manufacturing and service oriented parastatals, while the second phase (2000-2004) focuses on the relatively big enterprises in telecommunication, transport, energy and mineral, water and finance sectors. Since the start of the second phase, the government has made renewed efforts to speed up the programme. In 2001, major efforts were made to strengthen the economic infrastructure, through privatisation of utilities and transport services. The roads agency (TANROADS) was established to manage trunk and regional roads. Also, in the roads sector, the government's initiative of attracting private participation was given a boost in 2001 with the proposal to build a road on a build-operate-transfer basis from Dodoma to the lake Victoria zone. The road project, proposed by a local company is expected to attract leading international engineering firms and receive financial support from regional development organisations, international bodies and the private sector. The government also launched in 2001 its plan to increase private participation in the railways through a strategic investor to manage and operate Tanzania Railway Corporation for a period of 25 years. In the energy sector, the government decided to hand over the day-to-day management of TANESCO to the private sector. The new management team from South Africa is expected to ensure that TANESCO reaches financial viability before its proposed privatisation in 2006.

With nine years completed of the privatisation programme, by June 2002 the government had divested 260 out of the total 395 enterprises that formed the core of the programme. Although the government continues to make an effort, it is unlikely that the sale of the remainder of the SOEs could be completed by the December 2003 deadline for the second phase, given the problem of resistance from the public and trade unions on the management of SOEs proposed for privatisation. The course of the privatisation programme has sustained a blow as a result of the argument in 2002 between the government and the European consortium, which holds a 35 per cent stake in Tanzania Telecommunication Company over shares which have not been paid for. Also, there was only one bidder, South African airways to buy Air Tanzania, while the PSRC has had to retake control of a number of small companies, which failed in private hands.

UNIDO published a report in 2001 based on three main surveys on Tanzania: a competitive survey of manufacturing enterprises; an investor survey on the operating environment for foreign investors; and a study of the privatisation process in Tanzania. In the investor survey, industrialists cited a number of factors constraining their operating environment. These include the uncompromising attitude of Tanzania Revenue Authority; lack of clarity in rules and regulations governing the business sector; too many tiers of government; civil service hostility towards business; and problems with bribery and corruption. Foreign investors faced similar constraining problems in addition to problems with land acquisition; ineffective commercial court systems; extensive municipal costs, taxes in the guise of licenses and permits; long delays in acquiring work permits for foreigners; fringe costs associated with labour; and the ineffectiveness of the Tanzanian Investment Centre in its role as co-ordinator and facilitator. The privatisation study highlights some of the successes in the process to include those privatisations where production is aimed at the domestic market; where there is a foreign partner who provides foreign exchange and access to credit; where the technology is not too advanced; where the company's operations are not energy-intensive; where the government's equity stake reduces the bureaucratic problems facing the firm; where pay is related to performance; and where there is heavy investment in training.

The government appears to be on top of some of the constraints cited in the UNIDO study though most of the problems stand as a challenge to Tanzania in the quest to attract investment to the economy. The government has enacted new land legislation and restructured the Tanzania Investment Centre. Also, a unified tax appeal mechanism has been established and the Commercial Court System strengthened. Further, there has been some rationalisation of licensing procedures as well as the removal of advance payments of income tax prior to commencement of business. Besides, the government has launched the Tanzania National Business Council – under the chairmanship of the President – to provide an avenue for regular consultations between the government and representatives of the private sector. Nevertheless, the Corporate Plan (2001-2006), which underscores the government's determination to tackle the problems, also intimates that solving all the problems would be a long-term phenomenon.

Political and Social Context

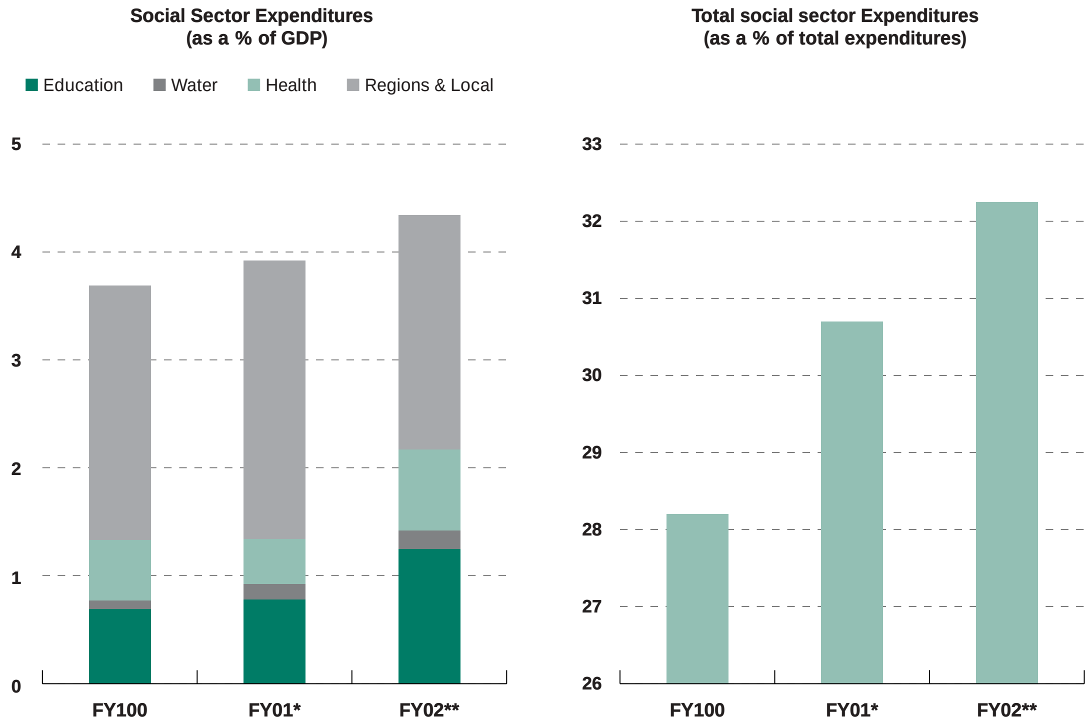
The democratic option in Tanzania appeared to take a firmer root in 2001 as the government took steps to resolve some of the problems that were creating political instability in the country. These problems included the political tensions in Zanzibar and Pemba. In Zanzibar, an accord to end the political impasse between the government and opposition was signed in October 2001 and was followed by a new agreement in January 2002 to implement the accord. The government also took steps to enhance the reconciliation process in Pemba. In early 2002, a committee was set up to investigate the killings on the island during the political violence that followed the 2000 elections. The government moved in 2001 to buttress Tanzania's democracy with comprehensive initiatives aimed at fostering good governance. These initiatives include, the preparation of the National Anti-Corruption Strategy and Action Plan and its publication throughout the country; establishment of the Good Governance Co-ordination Unit; extension of the offices of the Prevention of Corruption Bureau to the districts; establishment of a Human Rights and Good

Governance Commission (following a constitutional amendment and enactment of an enabling legislation); amendment of the Public Leadership Code of Ethics; and complementary reforms of the civil service and the system of local government. Although the government appeared to have taken its time in tackling governance related issues including corruption in the country, these initiatives give a new impetus to acting, for instance, on the report of the Warioba Commission that inquired into corruption in 1996.

Since preparing a comprehensive Poverty Reduction Strategy Paper (PRSP), which was endorsed by the World Bank and the IMF in November 2000, the government has been implementing specific poverty reduction measures and has put in place safety–nets for protecting the incomes of the poor. An important initiative in this area, the Tanzania Social Action Fund (TASAF), is aimed at generating cash incomes directly by vulnerable groups that are involved in carrying out projects chosen and managed by the communities. Other initiatives include: Small Entrepreneurs Loan Facility; Poverty Eradication Initiatives; Community Based Initiatives Trust; National Income Generation Programme; Agricultural Input Fund; and Youth and Women Funds.

In the health sector, the government has continued to implement its programmes in accordance with PRSP targets. The government is committed to achieve by 2002/03 an increase in the number of children under 2 years immunised against measles and DPT from 71 per cent to 85 per cent; 75 per cent of districts covered by an active HIV/AIDS awareness campaign; increase coverage of births by trained personnel from 50 per cent to 80 per cent; and implement a full malaria control programme. Special attention has been paid to gender issues and attention also given to vulnerable groups, including the poor in rural areas. The government's own review carried out in 2001 showed that per capita public health spending has increased to about $6, compared with $5.50 in 1999/2000.

Figure 6 - The Government is Serious About Poverty Reduction



** Proposed Budgetary Allocation.

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

Moreover, the allocation of resources in the health sector during 2001 was guided increasingly by per capita considerations, rather than the number of beds and health facilities as practised previously. Considerable progress also appears to have been made towards improving survival prospects. The coverage of the Integrated Management of Child Illness increased from 17 districts in 1999/00 to 31 districts in 2000/01. In effect, the number of children immunised against measles and DPT increased from 71 per cent to 78 per cent over the same period. The utilisation of Maternal and Child Health services, including reproductive health and family planning also increased. Moreover, following intensified preparation and adoption of District Health Plans, which now covers about 70 per cent of all the districts, the percentage of births assisted by trained personnel has increased substantially. With respect to the HIV/AIDS pandemic, the government has currently successfully covered all districts with an active HIV/AIDS awareness campaign.

In the education sector, the government has developed an Education Sector Development Programme (ESDP) encompassing pre-primary, primary, adult and secondary education, teacher training and school-based programmes to pursue the objectives of the PRSP. These objectives are to: increase gross primary enrolment from 77 per cent to 85 per cent; increase net primary enrolment from 57 per cent to 70 per cent; increase progression rate of primary to secondary level from 15 per cent to 21 per cent; reduce the drop-out rate in primary schools from 6.6 per cent to 3 per cent; and increase pass rate in standard 7 examinations from 20 per cent to 50 per cent. The government is pursuing these objectives under the ESDP through interventions aimed mainly at *a)* improving quality, *b)* raising enrolment, *c)* optimising effective use of available resources, *d)* reinforcing capacity to manage schools at grass-root level, and *e)* addressing gender, environment and HIV/AIDS concerns. Some specific initiatives already implemented in 2000/01 under the ESDP include: abolition of primary school fees and all other enrolment related contributions; introduction of a grant of $10 per student (compared to $1 hitherto) per annum; and introduction of an investment grant to finance construction of new classrooms, teachers' houses, toilet facilities and rainwater harvesting tanks. These initiatives have achieved some dramatic results following the abolition of school fees and other enrolment related contributions. Gross primary school enrolment is estimated to have risen to 83.2 per cent in 2001 from 77 per cent in 1999, suggesting that the government's target of 85 per cent for 2003 is achievable. At the same time, the net enrolment in 2001 increased rapidly from 57 per cent to 65 per cent. Similarly, encouraging performance has been achieved with the progression rate of primary to secondary level as the current rate is estimated at 20 per cent from 15 per cent in 1999. Also, the pass rate in standard 7 examinations increased from about 20 per cent in 1999 to 22 per cent in 2001. On the other hand, the situation has not changed with the drop-out rate in primary schools, which remains at about 6.6 per cent.

Tunisia

key figures

• Land area, thousands of km²	164
• Population, thousands (2001)	9 562
• GDP per capita, $ (2001)	2 099
• Life expectancy (2000-2005)	...
• Illiteracy rate (2001)	27.9

Tunisia

THE STRUCTURAL ADJUSTMENT PROGRAMME and macroeconomic reforms launched in Tunisia in 1987 have been to good effect, producing steady growth (an annual average of 4.6 per cent between 1992 and 2001), healthy economic activity and social progress. Macroeconomic policy successes are chiefly attributable to consistency between measures adopted and to the gradualism that accompanied their implementation. These reforms stabilised the economy and improved the external position, boosting exports by an average 6.6 per cent a year at constant prices between 1987 and 2001, while annual inflation fell from 8.1 per cent to 1.9 per cent over the same period.

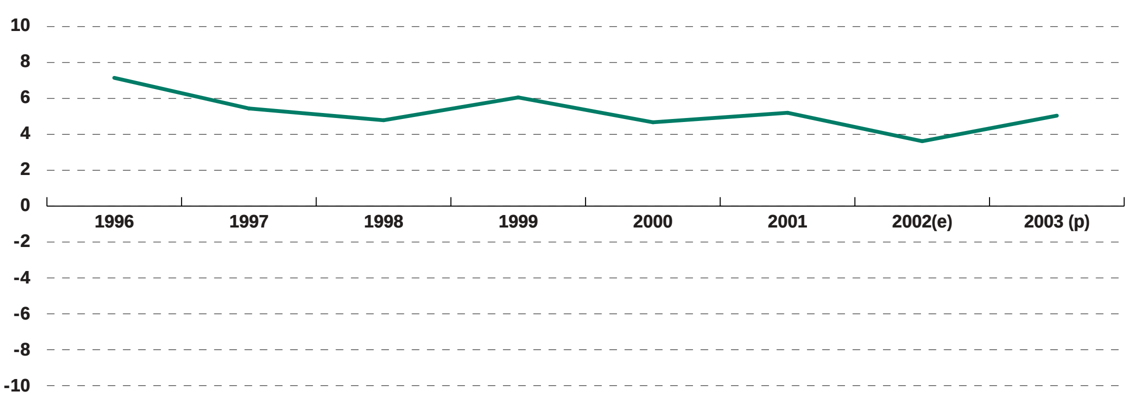
The government is trying to modernise and expand the private sector through full-scale privatisation and measures aimed at improving the business climate, such as simplifying procedures, infrastructure and financial arrangements.

Production is highly diversified and Tunisia is well integrated both commercially and financially into the global economy. The implementation of an association agreement with the European Union providing for free trade by 2010 constitutes one of the country's main challenges for the coming years. It effectively requires Tunisia to become more competitive if it is to survive the challenges of open markets and globalisation.

Policy success in Tunisia depends on gradualism and coherence in the choice of measures to adopt

Two major problems confront the country: a drought which has entered its fourth year, and unemployment that affects 15 per cent of the working population.

Figure 1 - Real GDP Growth

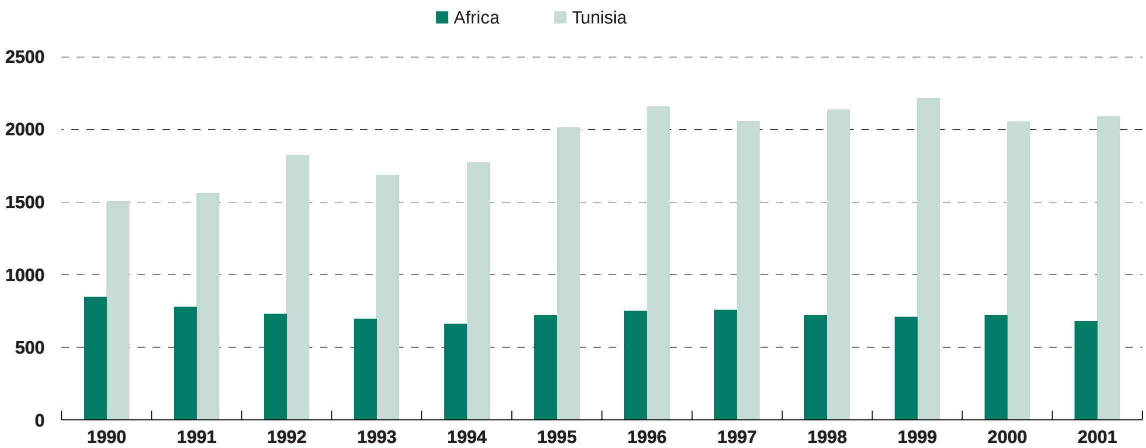


Source: Authors' estimates and predictions based on IMF data.

Recent Economic Developments

The 1987 structural readjustment programme has revived growth and brought economic and financial stability to the country. In the decade between 1990 and 2000, GDP growth averaged more than 4.5 per cent per annum. Despite continuing drought and poor agricultural production, volume GDP also increased by 5.2 per cent in 2001. However, this is expected to fall to just 3.6 per cent in 2002 owing to the effects of the world economic slowdown and the decline in tourism in the wake of the 11 September attacks. This is expected to recover in 2003 and reach nearly 5 per cent.

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



Source: Authors' estimates based on IMF data.

Agriculture contributed 12 per cent to GDP in 2001, in addition to representing 9 per cent of exports and employing about 22 per cent of the working population. Though the GDP figure varies from year to year depending on the weather, it has never fallen below 11 per cent and in good years has topped 16 per cent. An agricultural agreement with the European Union (EU) in January 2001 presented new opportunities for Tunisian exports and boosted the country's position in the European market, especially for products such as olive oil, double concentrate tomato paste and table grapes.

The country has comparative advantage in farm products such as olive oil, citrus fruit, cereals and dates and strong agricultural performances have led to self-sufficiency in most items, including since 1999, milk. The food trade balance was 87.7 per cent between 1990 and 2000, compared with 50 per cent over the previous decade.

Unfortunately, a fourth consecutive year of drought in 2002 was expected to cut agricultural output once again without prices to farmers being raised. In order to keep prices under control, the government has switched from providing subsidies to managing supply by raising imports.

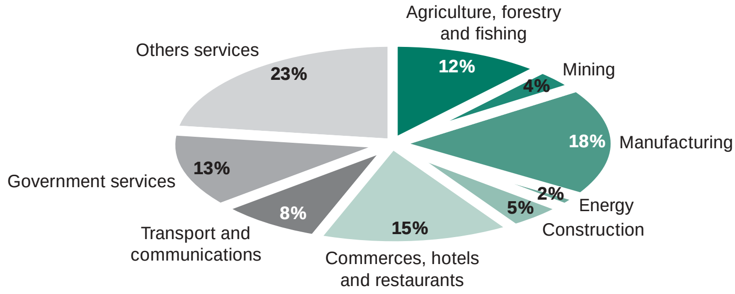
Fishing is one the principle activities in the broadly-defined agricultural sector and is the second major source of food-export revenue after olive oil, contributing 8 per cent of the agricultural value added.

In June 2002, fishing was down 2.3 per cent year-on-year, largely due to a 30 per cent drop in tuna production and 8 per cent decline in bluefish catches. Despite this reduction, seafood output in the first six months of the year was much higher than in the same period of 2001.

When the reforms began in 1987, oil provided about a third of all exports. Despite minor new discoveries however, reserves are steadily diminishing and the economy can rely neither on oil nor on natural resources as a whole. Between 1993 and 2001, crude oil's share of exports fell from 12.7 per cent to 7.3 per cent. About 50 oil companies are operating in the country with 40 or so exploration permits covering 55 per cent of the national mineral wealth. Oil reserves have fallen over the past two decades from 58 million tonnes of oil equivalent (TOE) in 1980 to 38 million TOE in 2001, an average annual drop of about a million TOE. This is mostly due to the natural depletion of the two main oilfields at El Borma and Ashtart.

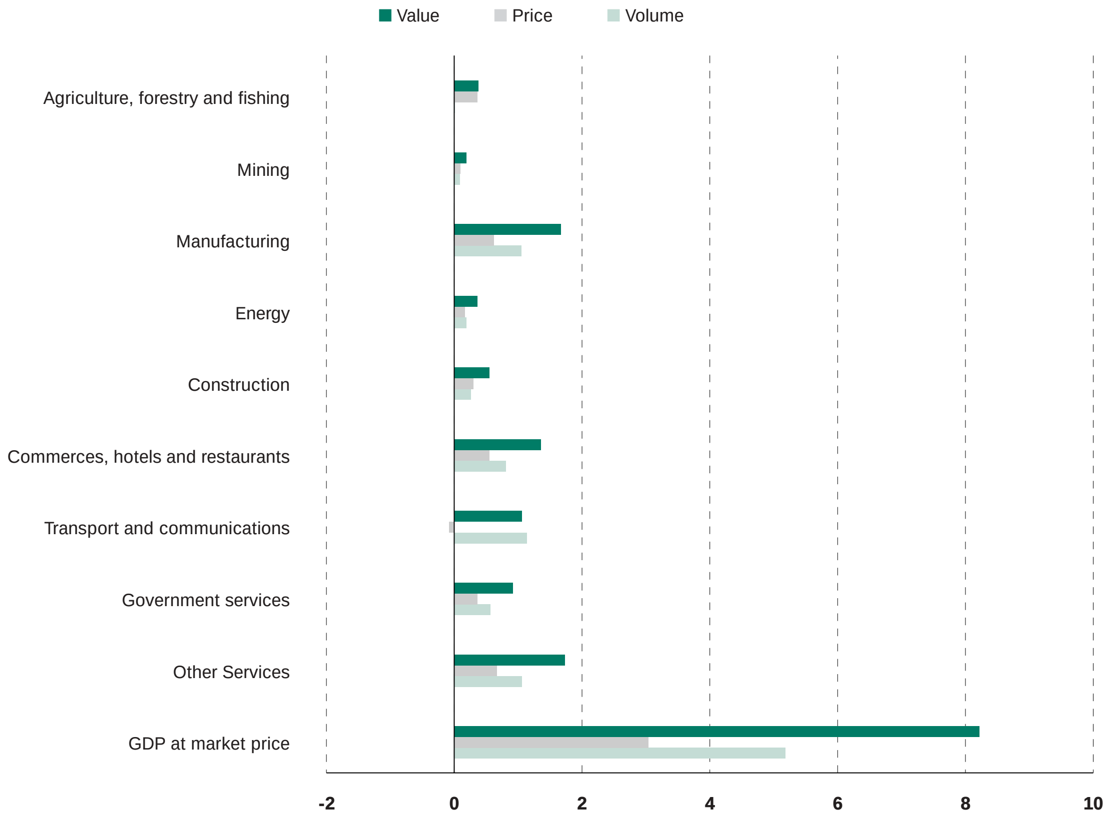
Depending on the year, the country is more or less self-sufficient in oil. Local consumption has risen from 1 952 900 TOE in 1980 to 3 712 700 TOE in 2001.

Figure 3 - GDP by Sector in 2001



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

Figure 4 - Sectoral Contribution to GDP Growth in 2001



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

Domestic consumption of natural gas has grown with development of the Miska gas field, from 92 600 TOE in 1980 to 577 300 in 2001. Electricity consumption has also risen from 178 000 TOE in 1980 to 707 700 TOE in 2001. Nearly 3 billion has been earmarked for projects to connect electrical grids in the region. Thus by 2006, Tunisia will be linked to both Algeria and Libya, and Algeria will be connected to Italy.

The country has an industrial infrastructure of more than 10 000 firms and comparative advantage in the textile, clothing and leather sector (48.5 per cent of exports in 2001) and in mechanical and electrical industries

(18.6 per cent of exports in 2001). Manufacturing is thriving, contributing 18 per cent of GDP in 2001, having grown by an impressive 9.6 per cent.

However, the industrial sector, particularly manufacturing, has been affected by weak external demand, notably from EU countries. The industrial production index fell 0.3 per cent in the first months of 2002 compared with a rise of 9.6 per cent in 2001. Manufacturing production, especially of export goods, shrank by 1.1 per cent in 2002, against growth of 12 per cent the previous year. While industry in Tunisia is gifted in adapting to the market, it suffers from being chiefly composed of contractors that are largely dependant on the European market.

In the service sector, tourism accounted for 6.2 per cent of GDP in 2001 and usually generates around 16 per cent of the country's foreign exchange revenue. It was badly hit by the 11 September attacks and only 876 359 tourists visited between January and March 2002, compared with 950 117 during the same period the previous year. Tourists from Europe fell 22 per cent, from 595 202 (2001) to 461 184 (2002). However, visitors from the Middle East were up 2.4 per cent.

Telecommunications, transport, new technology and insurance are quite important in the service sector. Air passenger numbers however, in parallel to the drop in tourism, fell by 22 per cent in June 2002 compared to June 2001.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Gross capital formation	**24.7**	**26.3**	**27.4**	**27.8**	**28.2**	**29.2**
Public	4.4	4.4	4.5	4.6	4.6	4.6
Private	20.3	21.9	22.9	23.2	23.7	24.6
Consumption	**79.2**	**75.9**	**76.2**	**76.1**	**77.5**	**76.9**
Public	16.3	15.5	15.6	15.8	15.6	15.2
Private	62.9	60.4	60.6	60.3	61.9	61.7
External sector	**-3.9**	**-2.3**	**-3.6**	**-3.8**	**-5.7**	**-6.1**
Exports	44.9	42.5	44.5	46.3	45.7	46.8
Imports	-48.8	-44.8	-48.1	-50.1	-51.4	-52.9

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

Prospective investments registered in the first half of 2002 by the Industrial Promotion Agency (API), the Agricultural Investment Agency (APIA) and the National Tourist Authority (ONTT) were down by 1 367 million dinars. Total investment should still rise to 28.2 per cent of GDP in 2002 and to 29.2 per cent in 2003. Government investment is steady at 4.6 per cent, but private investment has been rising since 1998. Consumption and investment demand is still high however and the investment rate (27.8 per cent of GDP in 2001) is consistently higher than the rate of savings (23.9 per cent in 2001), which means the economy has to call on savings held abroad.

Private investment was previously vertical, with the government designating key sectors to which it allotted subsidies, grants and low interest rates. These days, investment promotion in all sectors is horizontal, with a bias towards new technology and new entrepreneurs through tax breaks and other financial advantages.

Macroeconomic Policy

Fiscal and Monetary Policy

Government finances have strengthened in recent years and in 2001, in an effort to slow growth in domestic demand, budget policy was kept tight. While the 2002 budget emphasised current over capital expenditure, medium-term plans (under the 10th national plan) call for spending on "social infrastructure" development.

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Total revenue and grants [a]	**30.3**	**29.5**	**30.7**	**29.7**	**30.0**	**30.1**
Taxes	25.0	21.1	21.3	21.6	21.9	22.0
Grants	0.3	0.3	0.1	0.3	0.2	0.2
Total expenditure and net lending [a]	**34.4**	**31.7**	**32.7**	**32.2**	**32.3**	**31.8**
Current expenditure	27.2	24.9	24.5	24.1	24.1	23.6
Excluding interest	*23.2*	*21.5*	*21.2*	*21.0*	*21.0*	*20.7*
Wages and salaries	10.4	11.9	11.8	11.9	11.7	11.3
Interest payments	4.0	3.4	3.3	3.1	3.2	2.9
Capital expenditure	6.5	6.9	7.5	7.6	7.7	7.7
Primary balance	**-0.1**	**1.1**	**1.3**	**0.5**	**0.8**	**1.2**
Overall balance	**-4.1**	**-2.3**	**-2.0**	**-2.5**	**-2.3**	**-1.7**

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

Tax revenues were high in 2001 thanks to a vigorous economy on one hand, and tax reforms and new procedures enabling better collection and greater transparency on the other. The reforms should also boost revenue in 2002 and 2003, when it is expected to be about 22 per cent of GDP. Furthermore, proceeds from privatisation and the termination of Regional Compensation Fund (CRC) subsidies have also helped reduce government costs.

As a result, the budget deficit that stood at 2.5 per cent of GDP in 2001 should fall to 2.3 per cent in 2002 and to 1.7 per cent in 2003. IMF calculations, excluding grants and money raised by privatisation differ slightly, putting the deficit at about 3.5 per cent in 2001 and 2.7 per cent in 2002.

At 11.9 per cent of GDP in 2001, the wage bill (including contributions to social security funds) is a substantial part of the budget. Hiring cutbacks and the reassignment of certain civil servants to new posts were the first symbolic steps towards more far-reaching reforms and privatisation. The government currently prefers to finance the deficit by issuing treasury bonds rather than borrowing from the banks.

Monetary policy was also restrictive in 2001 and the tightening of bank liquidity was extended to the first quarter of 2002, further increasing in the second quarter. Prudential regulations and monetary controls were strengthened. Structural fragility and a large number of non-performing loans (estimated at 5 billion dinars, or 20 per cent of GDP) weaken Tunisian banks. Though half of these bad debts are secured, they accounted for 21.6 per cent of all credits in 2001. The government has encouraged the creation of debt-collection firms (since February 1998) and more recently, a 24 July 2001 law instituted financial instruments enabling bad debts to be converted into bonds.

Tunisia began to liberalise its economy both externally and internally in 1987. Interest rates were gradually freed up until they were completely deregulated in 1996. Credit controls were abolished and money supply now functions on the open market and through indirect means (rediscounting was abolished in favour of refinancing on the money market). Despite the government's planned reform programme, the banking structure is still dominated by the state, which controls two-thirds of the sector.

Strong domestic demand caused credit demand to rise sharply in 2001, especially in the first half of the year. In the second half, the central bank's failure to meet the liquidity demands of the commercial banks pushed up interbank interest rates and slowed growth of the main monetary aggregates. This is also expected to restrict refinancing activity in 2002.

The chief goal of Tunisia's monetary policy is to sustain the currency's value by keeping inflation on par with that in partner and competitor countries. The short-term goal is to link growth of the money supply to growth of economic activity. Inflation has been steadily falling since 1996 and was at a low 1.9 per cent in 2001, partly due to the dismantling of tariffs and a small rise in controlled prices. Since 1997, the government has controlled 19.5 per cent of retail prices, mostly of household items. Inflation should rise to 3 per cent however in 2002 and 2003 due to pressure on food prices.

Dinar accounts held in commercial banks by non-residents and firms can be converted into other currencies. The government is slowly liberalising the capital account, justifying its gradual approach by pointing to the financial crises that many developing countries have suffered and by citing the necessity of first having sufficient foreign currency reserves and a competitive productive capacity.

The exchange system is flexible and adjustable. The central bank has not made a nominal devaluation since 1990 and the sliding exchange rate keeps the real exchange rate steady and inflation under control. This flexible policy has boosted exports and reduced the current account deficit. The central bank wants to establish a wholly floating exchange rate once larger currency reserves are accumulated. However, this seems an ambitious goal and the dinar should continue to adjust itself in relation to a basket of currencies.

External Position

Despite the strong export performance, the current account deficit was more than 4 per cent of GDP in 2001 and the trade balance was also high (11.9 per cent of GDP). The deficit is expected to deteriorate further in 2002 and 2003 to 13.5 per cent of GDP, mostly due to increased imports of capital goods, energy and raw materials. Tunisia remains very open to the outside world and imports and exports were 96 per cent of GDP in 2001.

The services balance surplus fell sharply in 2001 because of the estimated 19.1 per cent drop in tourist revenue. This should produce a current account deficit of 4.2 per cent of GDP.

The growing deficit may increase the external debt, which is already high at 60 per cent of GDP. Efforts to reduce the deficit and restore balance include the sale of the second GSM mobile phone licence. Import monopolies are also gradually being dismantled.

The flow of foreign direct investment (FDI) has been quite good in recent years but it slowed sharply in 2001, falling from an exceptional 1 138 million dinars in 2000 to 358 million in 2001 (still up from 195 million dinars in 1990). The first payment by Orascom related to its purchase of the first GSM mobile phone licence should push FDI up to 600 million dinars in 2002. The sale of two cement plants in 2000 *Cimenterie de Gabès* and the *Cimenterie Artificielle de Tunisie* brought in 362 million dinars of FDI, representing about 10 per cent of all productive investments.

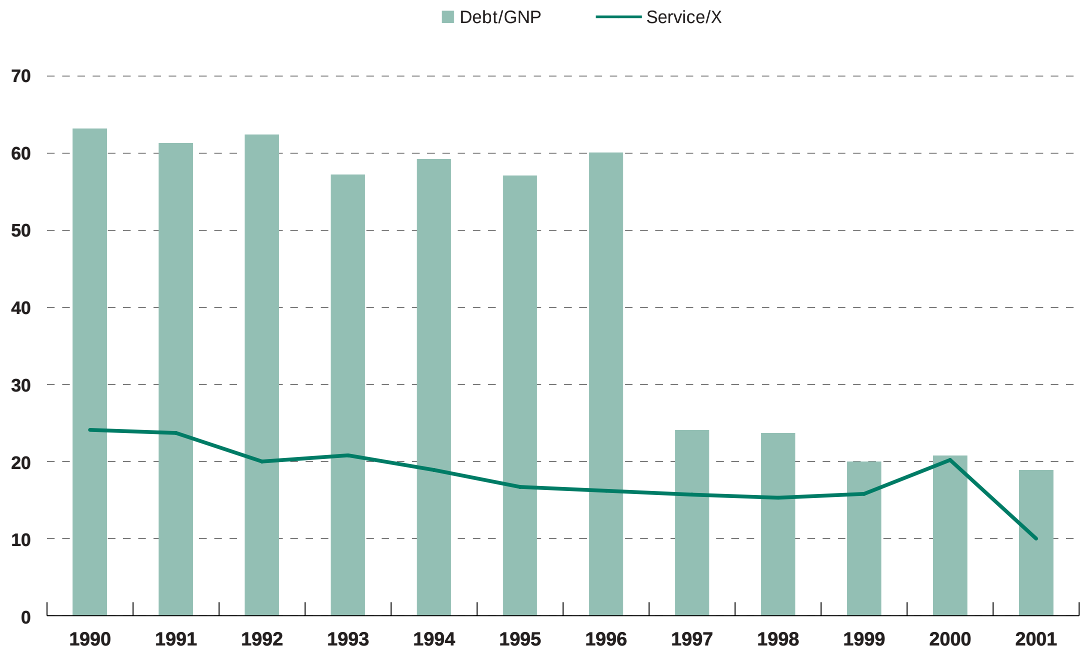
At the end of 2000, 2 139 partly foreign-owned firms were operating in Tunisia employing more than 192 000 people. Portfolio investment was very small and there was a net outflow in 2000. Before taking

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Trade balance	-11.0	-10.3	-11.6	-11.9	-13.0	-13.5
Exports of goods	30.3	28.2	30.0	32.9	33.0	33.8
Imports of goods	-41.4	-38.6	-41.6	-44.8	-46.0	-47.3
Services balance	7.7	8.1	8.0	7.4		
Factor income		-0.2	-0.9	-0.2		
Current transfers	-1.0	0.3	0.3	0.4		
Current account balance	**-4.3**	**-2.2**	**-4.2**	**-4.3**		

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

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



Source: World Bank.

majority control of a Tunisian firm, non-resident investors must seek regulatory permission and the economic suitability of the move must be determined.

Debt indicators have been largely under control in recent years, with debt at around 60 per cent of GDP and debt service at about 20 per cent of exports of goods and services.

Structural Issues

The main changes currently under way in the structure of foreign trade arise from the 1996 association agreement with the EU. European countries buy 80 per cent of Tunisia's exports, supply 71 per cent of its imports and the region is both the main source and chief destination of capital flows.

The association agreement covers services, mobility rights, competition regulation and tariff reduction, with complete free trade envisaged by 2010. Import tariffs on goods from other countries in the region are also included in the agreement, so that trade flows will not be distorted. Tunisia has signed bilateral trade agreements with Morocco, Jordan, Egypt, Libya, Iraq and Syria.

To prepare local firms for an open market with the EU, trade barriers are to be lowered in four phases, each applying to a different category of products. Capital goods not produced in Tunisia will be the first affected with tariffs on these to be abolished at once. Raw materials and semi-manufactured goods will follow, and then locally-produced capital goods. Ordinary consumer goods will be last. The target date for free imports of the most sensitive products is 2007. In order to prepare firms for the changes and to make them more competitive, the national office for modernisation assists about 250 firms a year. By the end of July 2002, 1 234 applications had been approved and 976 others were in the pipeline for modernisation funding.

The timetable and content of the privatisation programme drawn up with the World Bank have been broadly respected. It is part of a more general policy of encouraging private enterprise, consolidating government finances and boosting the financial market.

When the programme started in 1987, the sectors earmarked for privatisation were chosen strategically but gradually all sectors of the economy were drawn in, even the most competitive. The first privatisations were mainly in the sectors of tourism, construction and regional freight handling. Things accelerated in 1995 with privatisation of profitable firms such as the large cement plants. Privatisation of public services was mainly done through franchising or partial sale of operations.

By the end of August 2002, a total of 162 enterprises had been sold for a total of 2 215 million dinars ($1 610 million). Sales most often take place competitively through invitations to tender with set terms and conditions, or through the securities market. With healthy firms possessing growth potential, sale of a controlling share is combined with a public share offering to ensure a wide spread of shareholders and the issue of new shares through being quoted on the stock exchange.

At the end of August 2002, privatisation funds were 75 per cent comprised of foreign capital. Foreign investment was mainly directed at the construction and services industries but sectors as diverse as highway construction, electricity production, water desalination and liquid and solid waste management were also targeted. Equally, the tourism industry attracted a few investors.

Buyers are selected on the basis of their long-term plans for the company (investment proposals, number of jobs to be created and retained, technology transfer and export possibilities) rather than on a calculation of maximum profitability. The government gives tax and other financial incentives not just to buyers and investors, but also to present and former employees wanting to participate in share purchases. Banks are allowed to give medium-term loans directly to these parties and venture-capital firms are also encouraged to take part. Sale of a second GSM operating licence and privatisation of the *Union Internationale des Banques* (UIB) and the *Banque du Sud*, as well as restructuring of the insurance sector, were scheduled before the end of 2002 and should take place soon.

The government's economic development plan not only includes major policy guidelines and a list of important measures, but also a social model. The ninth plan, which ended in 2001, aimed at a "wholesale modernisation of industrial infrastructure," mostly by adopting new technology, promoting quality and training workers. However, the main goal was to improve business conditions and competitiveness. To this end, much progress has been made at the legal and regulatory level, but also in human resources, infrastructure and streamlining administrative procedures.

Within the private sector small firms receive the least government assistance as most policy measures do not apply to them and they are accorded little financial assistance. Small companies also experience great difficulty in obtaining bank loans and the restrictive conditions attached to government modernisation aid (such as using new technology) often precludes their receiving technical help or advice. The 10th development plan of 2002 to 2006 aims to "meet the jobs challenge, embrace the knowledge economy and strengthen competitiveness."

Tunisia has made good progress with infrastructure. A fast road between Tunis and Bizerte has been opened, an eighth airport (at Enfida) is due to start operating in 2004 and other projects are on the way. The government is focusing on improving the road and rail networks and setting up new industrial zones. The programme to modernise and boost competitive strength includes infrastructure projects that are increasingly funded by the private sector. The aim of the majority of these is to reduce commercial transportation costs. Facing strong competition from Southeast Asia, Tunisian firms are counting on their proximity to Europe and cheaper transport to win market share.

About 4 000 square kilometres of farmland are irrigated but freshwater supply is limited and problems of over-grazing, use of arable land and over exploitation of water for irrigation have arisen. Since September 2002, environment and water resource management has been the remit of the agriculture ministry. Both water and energy are strategic constraints Tunisia must face in coming years.

The ongoing financial-system reforms were first set out in the January 1987 structural adjustment programme. While the government's gradual approach to implementing these has reduced the risk of financial instability, the financial system remains slow, cutting into bank profitability.

After the banks were opened up in 1987, many of the secondary development and commercial banks repositioned themselves as general institutions. Recently however, strong specialisation has worked more in favour of the commercial banks. At the end of 2000, they held 63.6 per cent of all financial assets, in contrast with the development banks, which held less than 4 per cent.

The sector is made up of a relatively large number of players, including 14 deposit (or commercial) banks, six development (or investment), eight offshore and two merchant banks. In addition, about 20 finance companies exist. The comparatively small number of savers and investors in the country naturally limits each institution's business and this is used as an argument in favour of rationalisation.

The two main commercial banks are state-owned (the *Banque Nationale Agricole* and the *Société Tunisienne de Banque*) and hold 40 per cent of all deposits. Founded in late 1997 and specialising in microcredit, the *Banque Tunisienne de Solidarité* is the most recent arrival in the sector.

Though the insurance sector was also reformed by laws in 1992, 1994 and 1997 to encourage households to make medium and long-term savings, non-bank financial institutions do not play a big part in the country's financial system.

Since it was privatised in 1994 and then opened to foreign investors the following year, the Tunis financial market has performed quite well. The number of firms quoted has grown from 14 in 1994 to 45 in 2002. Traded shares represented less than 1 per cent of GDP before 1989 but rose to an average 10 per cent between 1990 and 2000. That said, the Tunis stock exchange is still dominated by the banking sector and its role in mobilising savings and funding productive activity is very small. Ninety per cent of issues on the primary market are government stocks and debentures of large firms.

Many point to the predominance of small family-run firms in Tunisia to explain its relatively weak market activity and the general lack of interest in financial products.

Political and social context

Tunisia's republican constitution dates from 1959. Elections for the presidency and the parliament are held every five years by universal suffrage. The constitution stipulates that the president be a Muslim between the ages of 40 and 70. Though it also limits the number of times the president can be re-elected to two, this provision was recently extended by President Zine el-Abidine Ben Ali, who has been in power since November 1987 and was re-elected for a fourth term in October 1999 with more than 99 per cent of the vote. Thirty-four of the 182 seats in Parliament (assigned by proportional representation) are set aside for the opposition.

The country is divided into 23 governorates. The internal political situation is stable with strong social and economic progress having been made. Human rights organisations however, frequently criticise the government's lack of respect for basic rights, especially freedom of association and expression.

Considerable progress has been made in poverty reduction. Only 4.2 per cent of the population lived below the poverty line in 2000, down from 6.2 per cent in 1990 and from 22 per cent in 1975. Unemployment remains a major concern for the government and with 15 per cent of the active population out of work, it poses a serious challenge. Though 71.9 per cent of workers are men, increasing numbers of women are entering the job market. They and young school-leavers exert heavy pressure. In 1999, 20.3 per cent of the unemployed had been looking for a job for more than a year and 19.1 per cent for more than two. Young people were most affected, with a jobless rate of 35.8 per cent among 18 to 20-year-olds and 31.3 per cent among those aged between 20 and 24.

In addition, the government's extensive economic restructuring programme has resulted in layoffs as firms have sought to become more competitive. Neither unemployment benefits nor redundancy compensation exist though some state firms have restructuring funds (FREP) that provide limited benefits. Thus, early retirement was offered to the eldest employees in state firms, while some compensation or social assistance such as continued health-care benefits and family allowances were given to others for a period of six months to a year.

The government's poverty reduction programme centres on absorbing the poor into the productive sector through employment and skills enhancement. Targeting education and professional training, the programme aims to reduce the school dropout rate and increase enrolment. A national adult education programme was launched three years ago and now involves 170 000 people. Of these, 28.1 per cent are aged between 15 and 29. Although obviously open to all, this programme aims at increasing literacy among young people. In constant terms, the budget for professional training has tripled in recent years.

A second axe of the poverty reduction plan targets special-needs groups that cannot be incorporated into the production sector, such as the old and the handicapped. The national programme to assist needy families, PNAFN, offers free health care.

The solidarity fund (or "26-26" fund, after its post office savings account number) was created on 8 December 1992 to target those pockets of poverty and problem areas where basic living conditions were lacking, especially in inland areas. The fund has achieved its initial goals in school supplies, primary health-care centres, rural roads, housing, electrification and access to drinking water and in 2001 it received 486 000 donations in addition to government funds. The fund's success spurred the creation of a second "21-21" jobs fund designed to help the long-term unemployed.

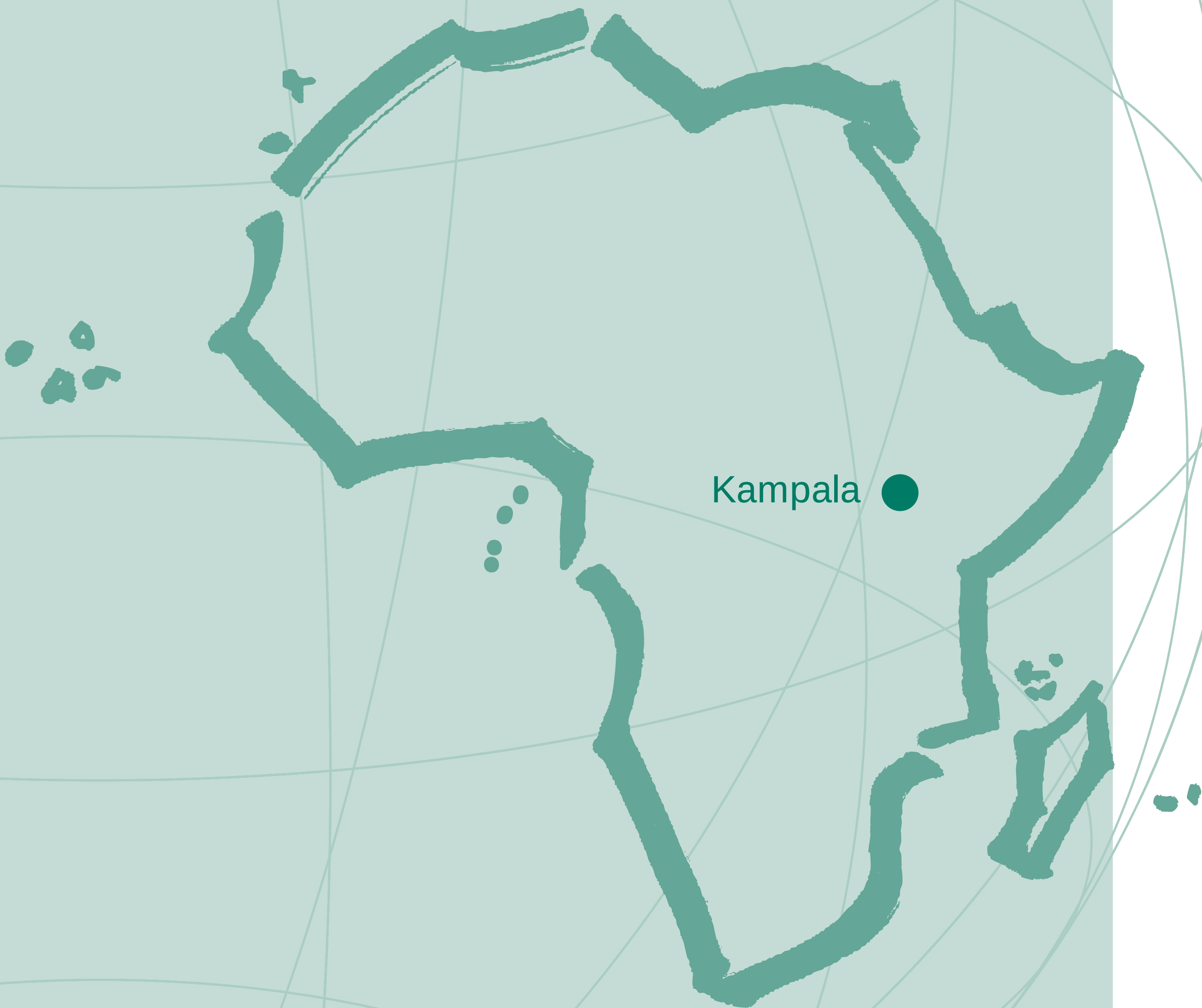
The country's social policy is costly, with health care and social affairs absorbing a fifth of government spending. However, some health and social indicators are the highest in Africa, with 93.2 per cent of the population having access to drinking water and 95.6 per cent to electricity. The proportion of housing that is rudimentary is also falling sharply and was only 1.2 per cent in 2001.

Infant mortality fell from 37.3 per thousand live births in 1990 to 25.8 in 2000. The HIV/AIDS infection rate was only 0.04 per cent in the 15 to 49 age group in 1999 and just 24 cases of tuberculosis were recorded in 1998.

National medical coverage rose from 77 per cent in 1996 to 83.4 per cent in 2001, with special attention given to disadvantaged social groups. Life expectancy increased from 70.3 to 72.2 years between 1990 and 2000.

Education took 19.9 per cent of the budget in 2001, or 4.7 per cent of GDP. In 2001/02, 99 per cent of 6 year olds were in school though some subsequently drop out as they get older since in the same year, only 91.3 per cent of children between the ages of 6 and 12 were attending school. Despite great efforts, 24.7 per cent of the population over the age of 10 (and 39.4 per cent of women) were still illiterate in 2001.

Uganda



key figures

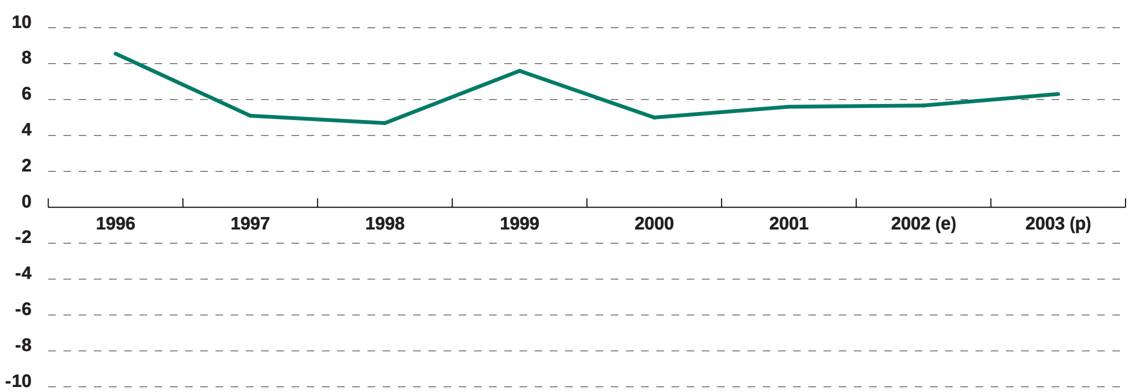
• Land area, thousands of km²	241
• Population, thousands (2001)	24 023
• GDP per capita, $ (2001)	238
• Life expectancy (2000-2005)	46.0
• Illiteracy rate (2001)	31.9

Uganda

THE UGANDAN ECONOMY is benefiting from the successful implementation of sound economic policies. The success is shown in strong economic growth, low and steady inflation, increasing per capita incomes, and marked decline in the incidence of poverty. Real GDP growth remained strong in 2001/02 at 5.6 per cent, albeit slightly reduced from the annual average rate of 6 per cent achieved since 1994/95. The outlook on growth is stabilisation in 2002/03 with real GDP growth estimated at 5.7 per cent. Growth is projected to increase to 6.3 per cent in 2003/04. Prudent fiscal management has enabled Uganda to maintain an increased expenditure programme for poverty alleviation, which is beginning to make a positive impression on the poverty situation of the country. However, the recent budget outcome has been characterised by a widening deficit financed by large inflows of external budgetary support that has increased the dependence of the economy on foreign donors. The deficit widened in 2001/02 though the outlook on the public finances is a gradual contraction in the budget deficit in 2002/03. Sound monetary management has resulted in a slowdown in monetary expansion that is contributing to subdued inflationary pressures, declining interest rates, and relative stability in the exchange rate of the shilling. The outlook

Strong economic growth and sound economic policies are beginning to reduce poverty in Uganda

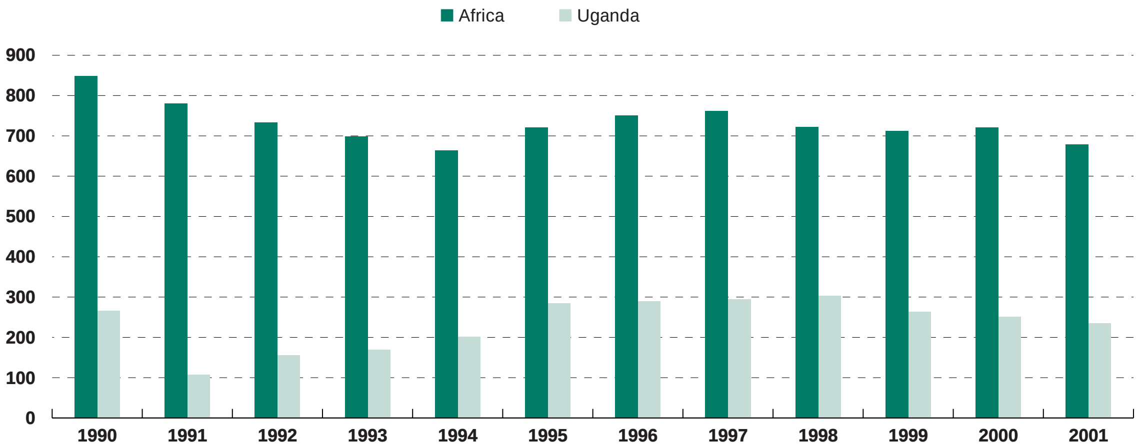
Figure 1 - Real GDP Growth



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

is for inflation to remain low at an estimated annual rate of 1.0 per cent in 2002/03; inflation is projected to rise to 3.1 per cent in 2003/04. The external sector of the economy also remains weak due to stagnation in exports that derives from declines in international prices of Uganda's export commodities. Uganda's trade deficit is estimated to widen further in 2002/03 and 2003/04. Uganda's external debt sustainability indicators have, however, improved due to disbursement of resources from the Heavily Indebted Poor Countries (HIPC) debt relief initiative. Uganda's progress in structural reforms has not matched the pace of other economic reforms. After a decade of privatisation, the country has by June 2002 divested 74 enterprises out of a total of 155 slated for privatisation. The privatisation process has been dogged by accusations of lack of transparency and corruption. The government's commitment to a renewed transparent process is necessary to revamp the process. The political environment of Uganda is relatively stable, with the country's democracy deepening as the government makes continuing efforts to improve its ways of exercising political, administrative and managerial authority. Although currently there is an atmosphere of relative security in the country, it remains important for the government to continue with conflict resolution in the problem areas.

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



Source: Authors' estimates based on IMF data.

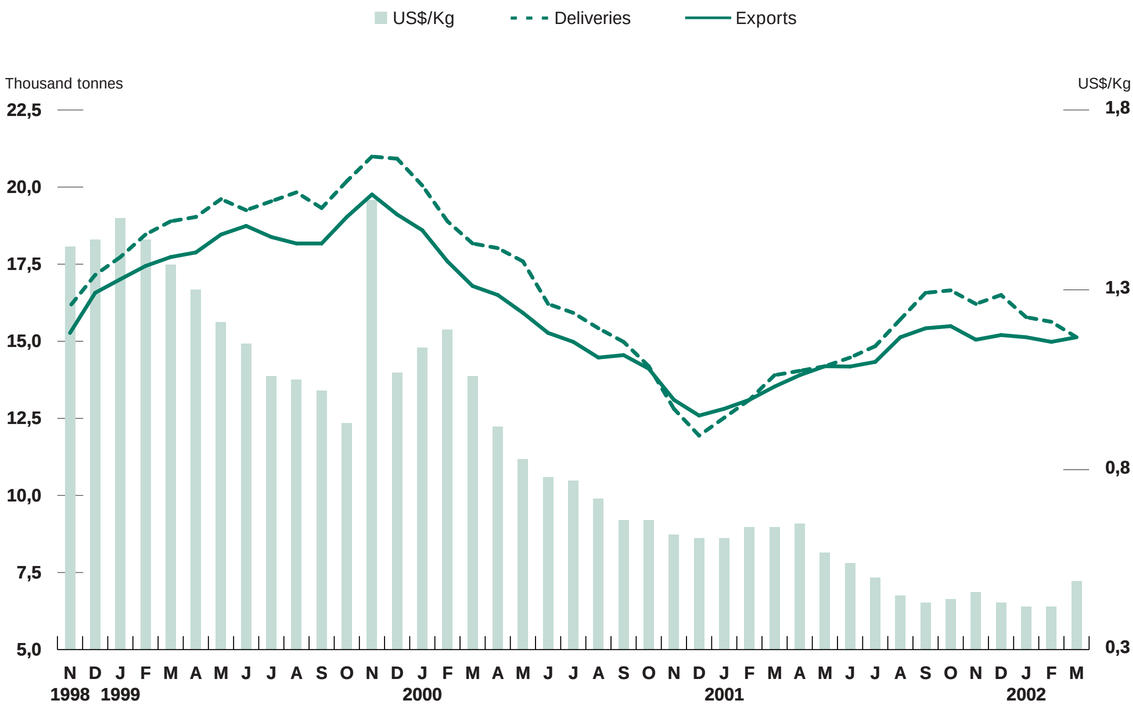
Recent Economic Developments

Uganda maintained strong real GDP growth in 2001/02 (July-June). According to the re-based GDP series (using 1997/98 prices instead of 1991 prices), real GDP is estimated to have attained a strong growth rate of 5.6 per cent in 2001/02, down marginally on the rate of growth of 6 per cent realised in 2000/01, and also down on the yearly average growth rate of 6.2 per cent achieved during 1994/95-1999/00. The slack in economic growth, which started in 1999/00, has been attributed to the fall in the international price of coffee, to drought and the increase in pests and diseases affecting the agricultural sector, which affected the expansion of the productive sectors of the economy.

In 2001/02, the agricultural sector accounted for 35 per cent of GDP and led the growth of total output expanding by 4.8 per cent compared with 4.6 per cent in the previous year. Livestock, forestry and fisheries together contributed the largest share of agricultural output in 2001/02, and expanded by an average 5.8 per cent compared with 4.4 per cent in 2000/01. Although food production increased by 4.6 per cent in 2001/02 this rate of expansion was down on the level of 6.2 per cent achieved in the previous year. The output of cash crops increased by 3.4 per cent in 2001/02, compared with the decline of 4.7 per cent registered in 2000/01, with the expansion due mainly to recoveries in cotton, sugarcane and tobacco production as well as improved performance of tea and other cash crops such as flowers, cocoa and vanilla. On the other hand, coffee output declined by 6.8 per cent in 2001/02 to follow the 3.4 per cent decline in 2000/01. The dramatic decline in world coffee prices has been devastating, undermining the ability of the domestic authorities to increase the producer price, while internally imperfect and poorly regulated quality production has reduced the competitiveness of the coffee industry. The general improvement in agricultural output during 2001/02 was due essentially to good weather conditions although some initiatives of the government under the Plan for Modernisation of Agriculture (PMA) generated positive supply responses. These initiatives included the distribution of plantlets of tea to households, the supply of cotton seeds to ginners, and the stocking of lakes with fish fry.

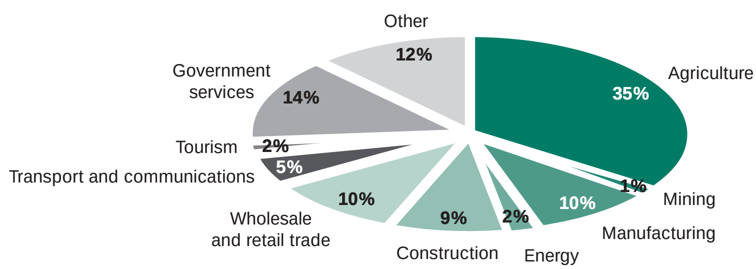
Manufacturing in Uganda continued to increase significantly in 2001/02, albeit at a slower rate than in the previous year. The manufacturing sector contributed about 10 per cent of GDP and grew by 7.4 per cent in 2001/02 compared with 8.9 per cent in the previous year. The expansion in manufacturing output in 2001/02 generally reflected increased domestic demand for manufactures as disposable incomes increased with the continued economic expansion. The expansion in manufacturing activity was derived mainly from

Figure 3 - Coffee Deliveries, Exports and Price Realised – January 1999-March 2002



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

Figure 4 - GDP by Sector in 2001/2002

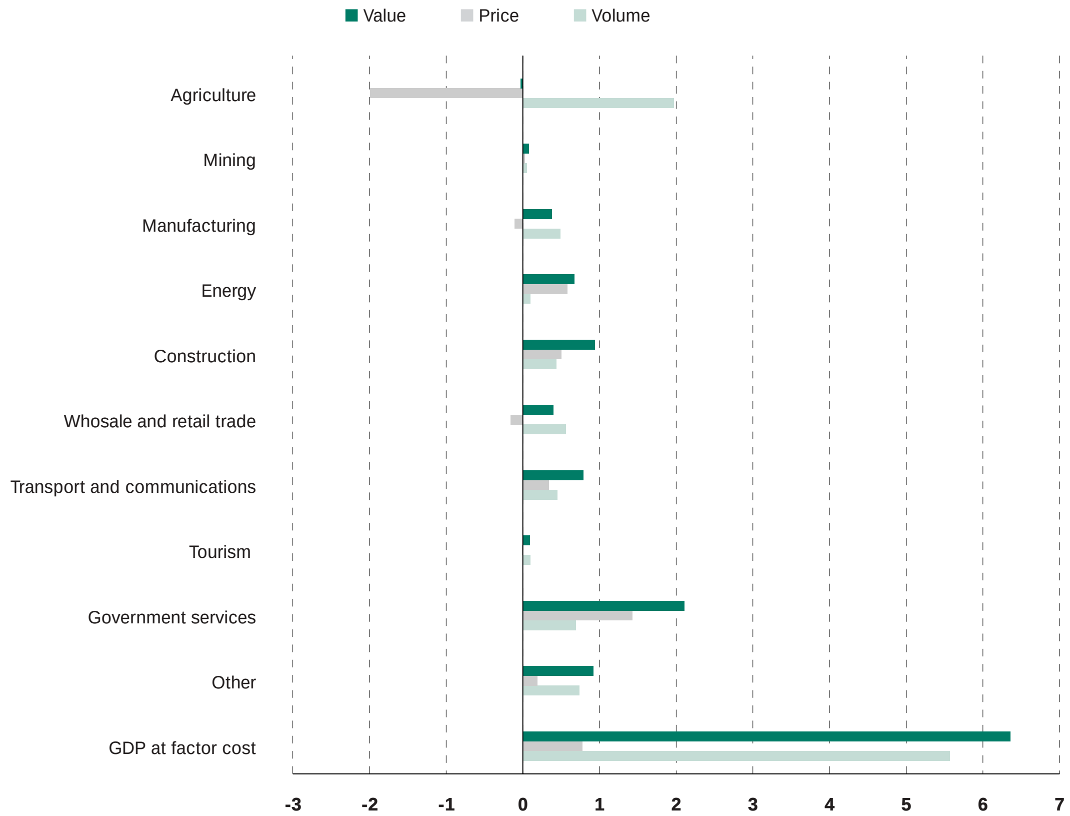


Source: Authors' estimates based on IMF data.

significant increases in the production of textiles and cement, with the production of household commodities such as soap, edible oils and soft drinks also experiencing significant growth. An increased demand for construction materials such as cement and stones contributed to strong growth in the mining and quarrying sector, which achieved a growth rate of 7.8 per cent in 2001/02 compared with 5.9 per cent in 2000/01.

The services sector also continued to perform well in 2001/02 buoyed up by significant expansion in communication and construction. Communications expanded significantly in 2001/02 registering a growth rate of about 10 per cent, up on the 8.2 per cent achieved in 2000/01, as the economy experienced continued expansion in mobile, cellular, internet and fixed telephone services since 1996. Likewise, construction expanded by 6.6 per cent in 2001/02, up

Figure 5 - Sectoral Contribution to GDP Growth in 2001/2002



Source: Authors' estimates based on IMF data.

from 2.9 per cent the year before due mainly to resurging mining and quarrying activities. Wholesale and retail trade maintained a 6.2 per cent growth rate. However, growth in hotel and restaurant services slowed down from the rate of 6.1 per cent in 2000/01 to 5.4 per cent in 2001/02 in the wake of the September 11 events in the United States that affected the tourism.

The expansion of Community Services, including central government services, also slowed from 7.5 per cent in 2000/01 to 5.9 per cent in 2001/02. Notwithstanding the slowdown in the expansion of community services, the government maintained strong expenditures in the key social services of education and health as part of the poverty alleviation strategy.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Gross capital formation	**17.1**	**17.2**	**18.8**	**20.1**	**19.5**	**19.9**
Public	6.1	5.5	6.1	6.3	5.7	5.8
Private	11.1	11.8	12.7	13.8	13.7	14.1
Consumption	**95.4**	**100.4**	**103.1**	**104.9**	**106.4**	**106.9**
Public	10.6	11.1	12.6	12.6	12.3	12.1
Private	84.8	89.2	90.5	92.3	94.1	94.8
External sector	**-12.5**	**-17.6**	**-21.9**	**-25.1**	**-25.9**	**-26.8**
Exports	11.7	11.4	10.1	9.8	9.8	10.1
Imports	-24.2	-29.0	-32.0	-34.8	-35.7	-36.9

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

The Ugandan economy has maintained a structure of demand, with the recent growth performance underpinned by high consumption especially private consumption. In 2001, consumption levels attained the highest share in GDP for about six years, reflecting the "feel good"factor as Uganda enjoyed relative peace compared to recent years. The investment level was also important as a result of high inflows of foreign savings. The outlook on the demand composition of GDP is for further increases in consumption, with stabilisation in the share of investment in total output.

Macroeconomic Policy

Fiscal and Monetary Policy

The focus of fiscal policy of the Ugandan government in 2001/02 was on three key objectives: stimulating the economy; strengthening tax administration; and raising tax revenues. This policy stance was aimed at adjusting the underlying feature of a widening fiscal deficit in relation to GDP, financed by large foreign inflows of budget support. The ever-widening fiscal deficit is seen as the major challenge to Uganda's fiscal performance as it exposes the government's budget position to policy changes with respect to foreign aid and foreign policy. It also strains private sector activity in the country, as the government competes for the same domestic financial capital, leading to appreciated real exchange rates and interest rates. During the 2001/02 fiscal year although the government's tax revenue as a percentage of GDP improved, the improvement was not substantial enough to prevent the fiscal deficit from worsening. The overall budget deficit rose to 5.1 per cent of GDP from 2.2 per cent of GDP in the previous year. Consequently, the primary balance also worsened to a deficit of 3.7 per cent of GDP in 2001/02 from the deficit of 1 per cent of GDP the previous year. The outlook on the budget situation is a contraction in the overall deficit to an estimated 1 per cent of GDP in 2002/03, with the primary balance also improving to an estimated small surplus of 0.3 per cent of GDP.

In recent times, the underlying feature of the government's fiscal performance, on the revenue side, has been the rather low revenue base, which continued in 2001/02. During 2001/02, tax revenue increased to 10.8 per cent of GDP from 10.4 per cent of GDP the previous year. The increase was, however, largely due to the inclusion of non-tax revenue collected by government departments in the revenue of 2001/02, which was not the case in 2000/01 prior to the abolition of the appropriation in aid provision, which had allowed government departments to retain their non-tax revenue to finance expenditure. The domestic tax effort in 2001/02 remained generally lower. In those taxes where the yield was higher, such as in income tax, this was mainly to the result of significant increases in wage rates of civil servants and the elastic nature of the tax, rather than any expansion in the tax base. Tax revenues from other sources such as import duty were poorer in 2001/02 owing to the failure of the government to realise efficiency gains in collection as well as from the appreciation of the Ugandan shilling. Similarly revenue from fuel duty, which contributes about 20 per cent of total revenue, was poorer in 2001/02 as the tax rate had been specific and constant for four years without any adjustment for inflation. This situation was rectified in the 2002/03 Budget, which pushed up the specific rate on petrol by 5 per cent to make up for loss in real value of the rate since 1998.

On the expenditure side, Uganda has maintained an increased expenditure programme for its Poverty Action Fund (PAF). In 2001/02, PAF spending within the domestic budget rose to 32.7 per cent from 28.7 per cent the previous year. This success in maintaining increased expenditure for poverty alleviation has been made possible through continued reduction in defence expenditure from 22.5 per cent of GDP in 1999/00 to 17.3 per cent of GDP in 2001/02. All other items of government expenditure increased in 2001/02 over the previous year. Interest payments on both external debt and domestic debt increased in 2001/02, the latter because the entire fiscal deficit in 2001/02 was financed by donor funds, and the large increase in treasury bill issuance in response, to absorb the liquidity generated by government spending of the donor funds. Wages and salaries increased as a result of salary increases to civil servants.

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

	1994/95	1998/99	1999/2000	2000/01	2001/02(e)	2002/03(p)
Total Revenue and grants[b]	**14.1**	**16.8**	**17.2**	**19.3**	**19.3**	**19.6**
Tax revenue	9.0	11.0	10.5	10.3	10.9	11.3
Grants	4.4	5.0	5.8	8.4	7.5	7.7
Total expenditure and net lending[b]	**16.7**	**19.5**	**27.0**	**21.5**	**24.4**	**20.6**
Current expenditure	9.2	12.2	13.7	12.7	14.9	12.8
excluding interest	*8.2*	*11.2*	*12.6*	*11.5*	*13.5*	*11.5*
Wages and salaries	2.5	4.2	4.3	4.4	5.2	4.3
Interest on public debt	1.0	0.9	1.1	1.3	1.4	1.3
Capital expenditure	7.3	7.3	8.8	9.0	9.5	7.8
Primary balance	**-1.6**	**-1.8**	**-8.7**	**-1.0**	**-3.7**	**0.3**
Overall balance	**-2.6**	**-2.7**	**-9.8**	**-2.2**	**-5.1**	**- 1.0**

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

Since the start of the 2002/03 fiscal year, the government has renewed its commitment to improving fiscal discipline at both the budget planning and execution stages. Towards this end, the Public Finance and Accountability Bill 2002 is being considered by parliament to replace the 1964 Public Finance Act. A major feature of the bill that may help stem the tide of the ever-increasing budget deficit, is the requirement that all proposed supplementary expenditure must be approved by Parliament.

Monetary policy management in Uganda during 2001/02 continued to emphasise price stability and the minimisation of volatility in interest rates and the exchange rate of the shilling. This policy stance was in the light of the challenges emanating from deterioration in the terms of trade and from increased liquidity as a result of government spending of donor funds. Treasury bills continued to be the key tool of conducting monetary policy with increased prominence of the REPO.

Broad money supply grew by 11.3 per cent in the first three quarters of 2001/02, to follow the 17.6 per cent growth during the financial year ending June 2001. The slowdown in the growth of monetary aggregates during the early part of 2001/02 was reflected in a slower growth of total deposits of the non-bank public with commercial banks by 10.6 per cent compared to the growth of 13.2 per cent observed in the corresponding period a year earlier. The slower growth in total deposits was due in part to slower growth in foreign currency deposits, which reflected increased confidence in domestic assets in the economy.

Due in part to the slowdown in monetary expansion, inflationary pressure in the Ugandan economy was generally subdued in 2001/02. The major factor behind the slowdown in inflation, however, has been increased availability of food, and a consequent sharp drop in food crop prices. During 2001/02, the annual rate of inflation fell to 4.6 per cent from 6.3 per cent the year before. The outlook on inflation is a further decline to an estimated 1 per cent in 2002/03. The rate of inflation is projected to pick up to 3.1 per cent in 2003/04.

In response to the tighter liquidity conditions, money market rates increased initially and thereafter gradually declined during 2001/02. The weighted monthly average annual discount rate on the 91-day treasury bill that was 6 per cent in June 2001 increased to 13.6 per cent in August 2001 before declining to 4.7 per cent in April 2002. Just as the discount rates on the treasury bills market trended downwards, the weighted inter-bank money market rates over the year dropped from 11 per cent in August 2001 to 3 per cent in May 2002. Similarly, the base lending rates of commercial banks have continued to decline: as an indication, the number of commercial banks whose prime lending rate is less than 14 per cent has increased from zero in December 2001 to 5 in May 2002; and the prime lending rate of all banks was less than 18 per cent during 2001/02. The decline in the lending rates of the commercial banks is explained in part by the decline in the rates on treasury bills as well as by the increased competition in the financial sector.

In the foreign exchange market, since July 2001, commercial banks in Uganda have been connected to the Reuters Uganda Investment Services Market Information in response to BOU directive. This has improved information flow in the inter-bank foreign exchange market, by contributing to real time display of quotes in the inter-bank foreign exchange market. The Ugandan shilling has maintained relative stability since 2000/01. During the year ending April 2002, the shilling depreciated against the dollar by only 1 per cent, with spreads exhibiting a declining trend. Over the same period, the nominal effective exchange rate (NEER) appreciated by 1 per cent while the real effective exchange rate (REER) depreciated by 1.9 per cent. The depreciation of the REER was largely on account of the price differentials between Uganda and its major trading partners, with the rate of inflation declining much faster in Uganda.

External Position

Uganda maintains a policy of liberalised external trade and at the start of 2002 had reduced its tariffs by 80 per cent in line with the principle of promoting trade liberalisation. Uganda also continues to support initiatives aimed at strengthening regional integration. It has been an active member of Common Market for Eastern and Southern Africa (COMESA). However, Uganda has not joined the Free Trade Area (FTA) of zero tariffs on goods produced in COMESA member states; it is awaiting its own study to assess the implications for Uganda moving to zero tariffs within COMESA.

Uganda's external sector continued to suffer from deterioration in the terms of trade arising from the continual fall in the international coffee price. In 2001, the trade deficit widened to 10.1 per cent of GDP from 9.2 per cent of GDP the previous year, as exports stagnated mainly on account of the decline in international prices of most of Uganda's export commodities. The outlook on the external position is further deterioration in the trade deficit, estimated at 10.5 per cent of GDP in 2002 and projected at 11 per cent of GDP in 2003. In 2001, coffee receipts suffered an estimated 23.4 per cent decline during 2001 on account of a 28.1 per cent fall in prices, despite a 6.7 per cent increase in volume. The volume of cotton exports increased by 75.4 per cent in 2001 although the value of exports increased by only 20.2 per cent due to a decline in prices by 31 per cent. Also, a massive decline in the price of tea by about 30 per cent during 2001 led to a decline in tea export receipts, for the first time in four years. Similarly, maize exports nearly quadrupled following large shipments to Zambia and Zimbabwe in response to the drought conditions in that region. However, the realised unit value of maize exports fell by about 38.1 per cent. Exceptionally, fish exports increased from $50.11 million in 2000 to $87.45 million in 2001 reflecting price increase of 31.6 per cent and volume growth of 32.4 per cent. Total imports increased by 13.6 per cent from $1.65 billion in 2000 to $1.818 billion in 2001. The increase mainly reflected private sector imports. Current transfers rose significantly from $927.9 million in 2000 to $1 214.2 million in 2001 due to a 60.6 per cent increase in private transfers. With the increase in imports outweighing the increase in current transfers, and with the stagnation in exports the country's current account deficit widened to $488.2 million representing 4.1 per cent of GDP, from $452 million (3.9 per cent of GDP) in the previous year.

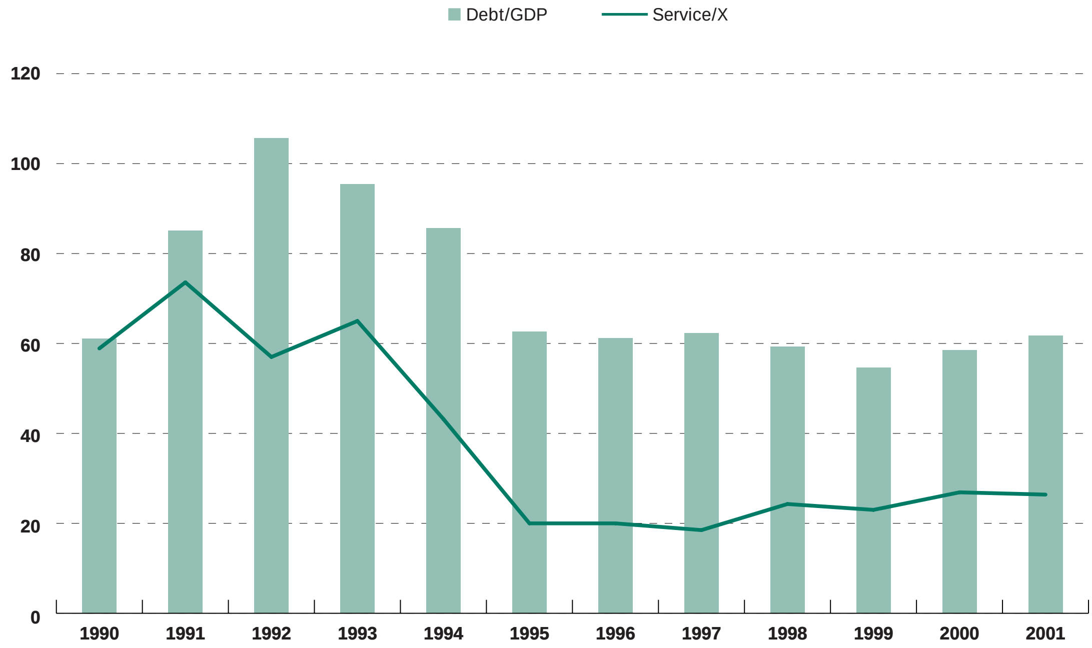
Uganda's stock of external debt at end of financial year 2001, stood at $3.628 billion compared with $3.310 billion at end of the previous financial year. The debt structure indicates that multilateral creditors accounted for 72 per cent of the total debt, bilateral creditors for 26 per cent, and private creditors for the remaining 2 per cent. While the Ugandan finance ministry contends that the country's foreign debt was "unsustainable" five years after applying the HIPC policy, available data indicate that the disbursement of resources from the enhanced HIPC

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Trade balance	-10.3	-8.4	-9.2	10.1	-10.5	-11.0
Exports of goods (f.o.b.)	-10.8	8.3	7.8	7.8	7.9	8.2
Imports of goods (f.o.b.)	21.1	-16.7	-17.0	-18.0	-18.4	-19.2
Services balance	-4.3	-4.2	-3.6	-5.2		
Factor income	-1.4	-0.3	-0.2	-0.4		
Current transfers	11.7	9.2	9.1	11.6		
Current account balance	**-4.3**	**-3.7**	**-3.9**	**-4.1**		

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.

debt relief initiative has contributed significantly to improving Uganda's external debt sustainability indicators, which could have worsened during the year due to the poor performance of the export sector. Uganda's total payments on medium and long-term public and publicly guaranteed debt during 2001 amounted to $143.3 million. Out of this total debt service, $70.75 million was financed using the HIPC initiative. Consequently, the ratio of debt service (including IMF payments and debt paid through HIPC) to export of goods and non-factor services is estimated at 25.7 per cent, lower than the 26.6 per cent of the previous year. Similarly, the debt stock to GDP ratio, at an estimated 61.7 per cent at end-2001, was lower than the 63 per cent recorded in the previous year.

Structural Issues

The Ugandan government is pursuing structural transformation of the economy through its Medium-Term Competitiveness Strategy for the Private Sector (MTCS) (2000-2005), which aims at eliminating barriers to private sector growth and increasing the efficiency of both public and private investment. The strategy is pursuing reforms in six key areas, namely, infrastructure provision, strengthening the financial sector and improving access to credit, strengthening the commercial justice sector, institutional reforms for promotion of business growth, promotion of exports, and improving the business environment for micro and small enterprises. In 2001/02, considerable progress was registered towards the implementation of the strategy.

Uganda started its privatisation programme initially in 1992, with the objective of creating a favourable environment for increased private investment. However, the lack of a specific law to govern the exercise at the time created legal problems for the government, which subsequently in 1993 enacted the Public Enterprises Reform and Divestiture Statute and established the Divestiture and Reform Implementation Committee to run the process. Due to administrative difficulties, the programme was suspended in early 1995 to be re-activated later in the year. Since the re-activated programme commenced, 155 public enterprises have been put on the divestiture list. As at June 2002, 74 divestitures have been completed, and 34 enterprises have been liquidated. As in other sub-Saharan countries, Uganda's privatisation programme has been dogged by lack of transparency and corruption as well as a variety of other problems. These include valuation problems, as was the case with African Textile Miller, Kakira Sugar Works Ltd. and Associated Match Company; low offers, which resulted in public outcry as occurred with Nyanza Textile Industries Ltd., Uganda Grain Milling Company and Uganda Consolidated Properties. In 2000/01, the government committed itself to a renewed and transparent process. Uganda Commercial Bank Ltd. (UCBL), which had been under the statutory management of the BOU since April 1999, was privatised with a strategic investor, Stanbic Uganda Ltd. Also, in 2001/02, the government took steps to restructure Uganda's energy base, characterised by over dependence on traditional and imported energy forms. In the power sector, the government pursued its privatisation of Uganda Electricity Board (UEB). A number of activities were completed in 2001/02 with respect to the privatisation of UEB. These activities included inventory and valuation of UEB assets and liabilities; distribution and transmission investment needs analysis; drafting of licenses, regulations, concessions and power sale agreements; financial and tariff modelling and unbundling of UEB into three companies. Since the beginning of 2002/03, an independent power regulator, the Electricity Regulatory Authority has been put into operation. The government also began the concession of Uganda Electricity Generation Company, Uganda Electricity Distribution Company and the successor of Uganda Railway Company to private investors. Preparations also started in 2002/03 for private sector participation in water delivery in urban towns; in 2002/03, it is expected that water systems in 33 urban towns will be privatised under an operating lease.

The transformation of the economy continued in 2001 with other remedial works. In the power sector, repair works of Owen Falls Dam were finalised, installation of the 3rd Unit of Kiira Power Plant was accomplished and funding for the 4th and 5th Units of Kiira Power Plant was also secured. The government also took decisive steps towards the construction of Bujagali Hydropower Dam Project (AES Nile Power) with the approval of loan financing by the World Bank. Land resettlement and compensation was completed and transmission line routing and preliminary construction work embarked upon. Under its first Rural Electrification (RE) Strategy and Plan (2001-2010), the government completed 106 schemes out of 192 designed schemes. A power Export Sales Agreement with Kenya was also concluded during the year. The government took steps in 2001/02 to promote petroleum exploration and development in Uganda. Following the finalisation of seismic surveys in Semliki Basin (Exploration Area 3), drilling operations are expected to commence in 2002/03. The government completed negotiations for re-licensing Exploration Area 2 and signed a Production Sharing Agreement (PSA) in October 2001 with a consortium of Australian and South African companies. In addition, geological and geophysical surveys of Exploration Area 1 were completed and the data being used to promote the Area for licensing.

The government continues to place emphasis on its financial sector reforms. During 2001/02 several measures were implemented towards strengthening the financial sector and increasing access to financial services. The government also completed the restructuring of Uganda Development Bank (UDB) to enable it to provide medium and long-term finance. In its efforts to ensure that insurance companies are financially sound and are able to comply with the insurance statutes, the government revoked the licenses of two local companies for failure to meet the minimum statutory paid-up capital. In 2001 the draft Financial Institutions Bill (FIB 2001), was proposed by the government after extensive consultations with stakeholders, especially in the banking industry. The bill, currently before Parliament, updates Uganda's banking legislation to international best practices as set out in the Basle Core principles for Effective Banking Supervision. Similarly, the government proposed the Micro Deposit Taking Institutions (MDI) Bill to regulate micro deposit taking institutions. The Bill, also before parliament, allows micro-finance institutions that are performing well to mobilise savings from the public for purposes of on lending.

Uganda carried out in 2001/02 a number of institutional reforms for promoting business growth. The government merged the key investment and trade promotional bodies namely, the Uganda Investment Authority, Uganda Export Promotion Board, and the Uganda Tourism Board in an effort to cut red tape and promote value for money. Similarly, a number of measures were taken to reduce the regulatory and administrative burdens on business. These measures included reform of the business licensing system at both central and local government levels; improvement of the tax appeals process; supporting the introduction of appropriate labour legislation; and altering the tax treatment of financial leasing.

Political and Social Context

Uganda's democracy deepened in 2001 as the government took several steps to improve its ways of exercising political, administrative, and managerial authority and protection of the basic rights of citizens. The reforms and actions undertaken during 2001/02 include:

— *Public Sector Financial Strengthening*: A new post of Accountant General was created to be responsible for government accounting system.

— *Pay Reform*: A draft pay policy principles were proposed to restore and preserve the purchasing power of public sector pay; to minimise distortions arising from select pay awards; and to achieve market-benchmarked pay targets for managerial, technical and professional cadres.

— *Pay Roll Management:* The average time needed to access the health and education payroll was reduced from seven months to one month, while the education pay roll was fully decentralised.

— *Public Procurement reform:* the government decentralised procurement to line ministries from the central tender board in the effort to address corruption in tender awards and improve efficiency.

— *Decentralisation:* In response to concerns about poor programme implementation within local governments, which was partially a result of weak linkages between the central and local governments, a fiscal decentralisation strategy was finalised to improve efficiency of the fiscal transfer process.

— *Legal and Judicial reform:* The government embarked on a programme to reform the Justice, law and order sector with support from several development partners.

While these reforms are expected to improve governance in Uganda, the government has taken extra measures aimed at minimising corruption, which continues to hold sway in the economy. The Inspectorate of Government (IGG) Bill and the Leadership Code Bill were enacted into law during 2001/02. The Leadership Code provides avenues for citizens to access leaders' asset declaration. It also provides for sanctions for non-compliance including disqualification from office.

Uganda's security situation showed signs of improving in 2001/02. As a result of government intervention, peace is returning to the North and Western parts of the country that have for the last few years been affected by rebel activity. Within the umbrella of an amnesty law, several former rebels have surrendered to the authorities The government is currently implementing a disarmament programme in Karamoja. However, some conflict situations still remain in the country. Owing to internal security problems, about 600 000 people are now estimated to be living in protected camps around the country.

Uganda's recent strong growth performance is beginning to make a positive impression on the poverty situation of the country. According to the government's household surveys, the proportion of the population living below the poverty line of $1 per day has declined from 56 per cent in 1992 to 44 per cent in 1997, and further down to 35 per cent in 2001. The government has formulated a Poverty Eradication Action Plan (PEAP), which seeks to increase the incomes of Ugandans and is based on four pillars: through the creation of jobs as a result of enhanced productivity and economic growth; through security and good governance; measures to increase incomes of the people; and measures to improve the quality of life for the poor. The government continues to make progress towards sustainable growth and structural transformation, as well as improve security and governance in the country. Through the PMA, Uganda has also made progress on several fronts to increase access by the poor to productive assets and increase returns on them. Some of the modalities used include the use of grants to purchase improved inputs, improving rural infrastructure and linking national research to farmers. Towards the goal of improving the quality of life of Ugandans, the government accords budget priority status to social services such as education and health.

In the health sector the government continues to implement the Health Sector Strategic Plan (HSSP), now in its second year. During 2001/02, the sector registered both quantitative and qualitative progress. Uganda achieved considerable progress in some key health indicators. Most notably, the HIV prevalence rate continued to fall from 6.9 per cent in 1999/00 to 6.1 per cent in 2001/02, making Uganda one of the few African countries that have actually managed to bring down prevalence rates. Condom promotion was a key element in the STD/AIDS control programme. In 2000/01 up to 60 million condoms were distributed by the government, social marketing groups and the private sector. The government has continued with efforts to expand the provision of Anti-Retroviral Drugs (ARVs) and achieved a dramatic reduction in the price of ARVs through consultation with pharmaceutical companies. During 2001/02, the government successfully completed a number of policy initiatives including strategies for public-private partnership, in-service training, and the introduction of the National Pharmaceutical Sector and Health Financing. The government abolished user charges in government health units all over the country, while allowing for two lines of service in government hospitals (paying and non-paying). The policy revealed a previously unsatisfied demand for health care in Uganda, with an increase in patients seeking treatment in government hospitals. Consequently, increased pressure was put on the health service supply with frequent drug stock outs throughout the system. Uganda's health status indicators, however, continue to reveal some worrying trends. Statistics from the recent UDHS (2000-01) reveal that infant, child and maternity mortality rates have remained stagnant for a number of years and are failing to improve. Infant mortality has remained high and constant over the past 15 years and currently stands at 88 deaths per 1 000 live births. Under-five mortality rates are high at 152 deaths per 1 000 live births. Finally, there has been no change in maternal mortality rates since 1995 with 505 deaths per 100 000 live births.

The Uganda government education policy is focused on Universal Primary Education (UPE). Achievements for primary education over 2001/02 are reflected by a number of performance indicators. The net primary enrolment rate continues to improve from 83 per cent in 1998 to 94 per cent in 2001. The primary school completion rate, which stood at 40 per cent in 1998, has improved to 45 per cent in 2001. In addition, the pupil-teacher ratio improved from 65:1 to 58:1 from 2000 to October 2001. This is attributed to a recruitment drive for teachers undertaken by the government since May 2000, which led to an additional 15 361 teachers accessing the payroll by June 2001. The government also recruited and enrolled 3 000 unqualified teachers in a three-year in-service training programme. In addition, the government approved incentives aimed at attracting teachers to remote areas. The pupil-classroom ratio has similarly improved from 106:1 in 2000 to 98:1 by October 2001. This is attributed to strong budget support for classroom construction. Nonetheless, the educational system continues to experience major concerns including the number of pupil dropouts. The dropout rates in primary schools are reported at 6.6 per cent for boys and girls. For pupils who drop out permanently, about 75 per cent are said to cite “lack of money”’ as being responsible, according to the National Service Delivery Survey. Other factors include poor health (6.2 per cent), pregnancy (5.2 per cent) and marriage (5.8 per cent).

Zambia

key figures

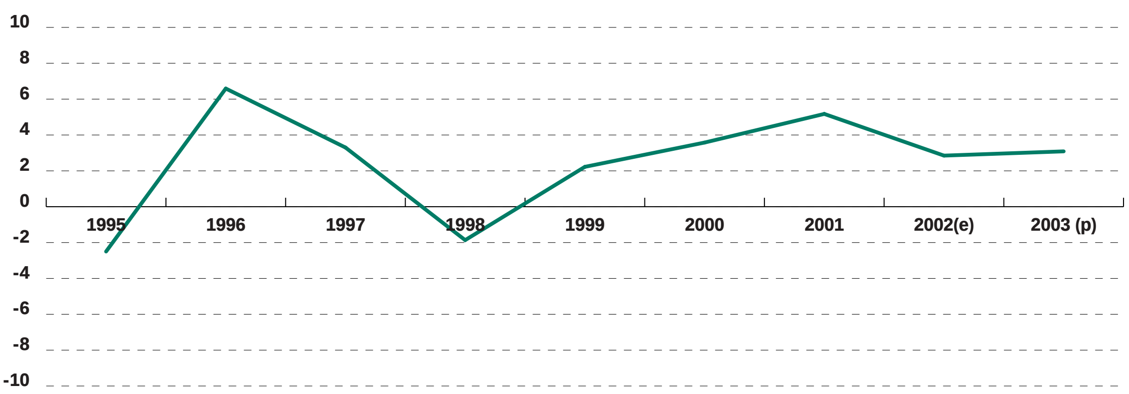
• Land area, thousands of km^2	753
• Population, thousands (2001)	10 649
• GDP per capita, $ (2001)	339
• Life expectancy (2000-2005)	42.2
• Illiteracy rate (2001)	21.1

Zambia

IN 1991 ZAMBIA STARTED A RADICAL reform path that transformed it from a centrally planned to a market economy. This dramatic change, which entailed privatising the initial close-to-80 per cent share of public economic activity and liberalising prices for most commodities, revived the economy and resulted in a good growth performance for the first half of the 1990s. Nevertheless, the government has not been very successful in diversifying the country's export base away from its heavy dependency on copper, or managing its expenditures more efficiently, whose funding still strongly rely on foreign assistance, or, and most importantly, reducing poverty. These shortcomings originate mainly from delays in the implementation of structural reforms. Economic performance improved significantly in 2001 — GDP grew by 5.2 per cent — thanks to the recent investments in the privatised copper sector. However important tests await the new government, elected in December 2001: the pull out of the Anglo-American Corporation (the major private shareholder in the largest mining company in the country) may result in severe economic disruption. Output of the main staple crop, maize, has been meagre, following the massive drought that hit the country in 2002, and its forecasts are not encouraging. Crucial foreign aid ever more depends on domestic good governance; the aids pandemic is not declining while its devastating effects have not yet fully materialised. Growth for 2002 and 2003 is therefore expected to be below target at about 2.8 and 3.1 per cent, respectively. The government medium-term strategy for growth and poverty reduction is outlined by the Poverty Reduction Strategy, issued in May 2002, which sets macroeconomic targets and policy actions in order to reduce poverty and promote the diversification away from mining. In support of Zambia's commitment to the economic programme, at the Consultative Donor meeting held in July 2002, the donor community pledged about $1.3 billion for 2003 and 2004.

Improving economic governance and diversifying away from mining have become Zambian priorities

Figure 1 - Real GDP Growth

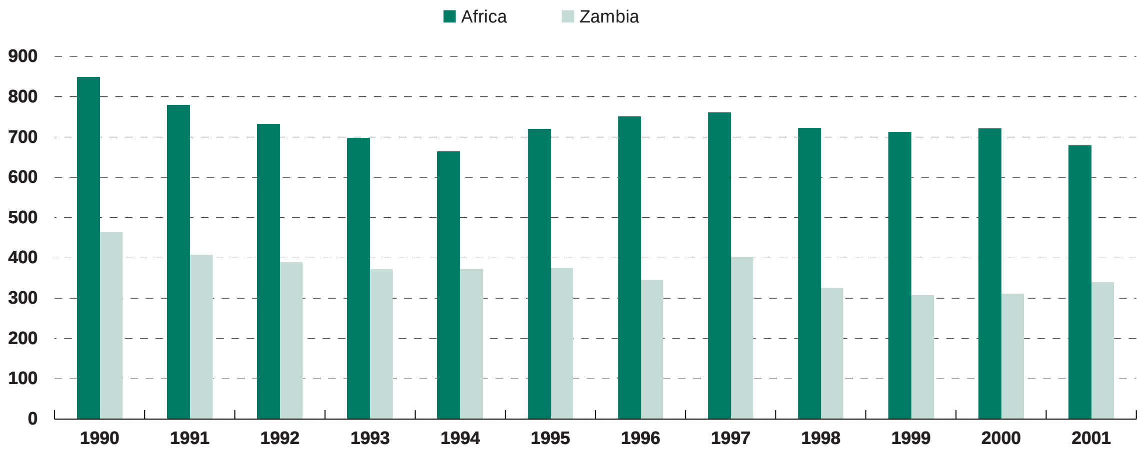


Source: Authors' estimates and predictions based on Central Statistical Office data.

Recent Economic Developments

Zambia's recent economic performance suffers from a mix of domestic and international unfavourable factors. On the domestic side, the government

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



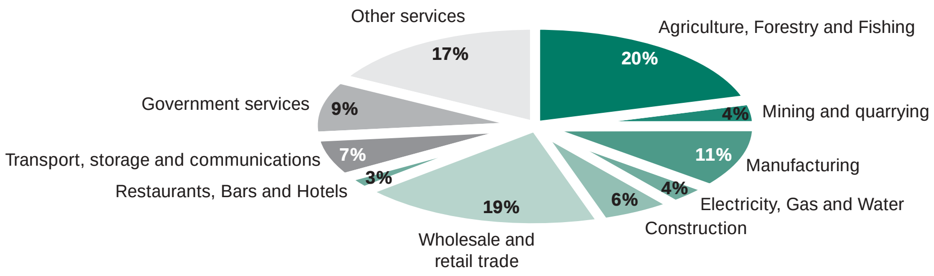
Source: Authors' estimates based on IMF.

privatisation strategy has been hesitant when dealing with some crucial sectors (particularly those considered strategic institutions): copper mining was privatised only in March 2000, and the energy, telecom, and financial sectors are still to be privatised. Inefficient and under-capitalised SOEs in these sectors have kept generating losses, which, together with the 2001 presidential elections and the Organisation of African Unity (OAU) summit's exceptional expenditures, created serious budget problems for the Zambian government. The external factors such as lower copper prices, the shrinking of foreign budget support, and regional tensions (Angola, Congo and recently Zimbabwe), have worsened the situation and further limited the government resources to stimulate economic growth, even if the external debt burden has been significantly reduced on account of the Heavily Indebted Poor Country (HIPC) initiative. In spite of good GDP growth in 1996 (which was over 6 per cent following a good harvest) growth in the rest of the 1990s was either negative or slightly positive. In contrast with this gloomy picture, real GDP grew by 5.2 per cent in 2001, owing mainly to an increase in the mining production fuelled by improved efficiency of the privatised mines. Unfortunately though, forecasts for 2002 and 2003 are not as favourable as hoped: in particular the pull out of Anglo-American Corporation and the massive drought that hit the country in 2002 have determined a 2002 GDP growth of 2.8 per cent. In 2003 growth is forecast at 3.1 per cent.

The most urgent issue for the Zambian economy is thus a further reduction of its dependency on copper and the encouragement of private sector investment into export oriented agriculture, light manufacturing, small scale mining and tourism. In this light, diversification programmes and dialogue with support from the World Bank have commenced with a series of consultative workshops, particularly with the Copperbelt business community, which is largely dependent on the mining sector.

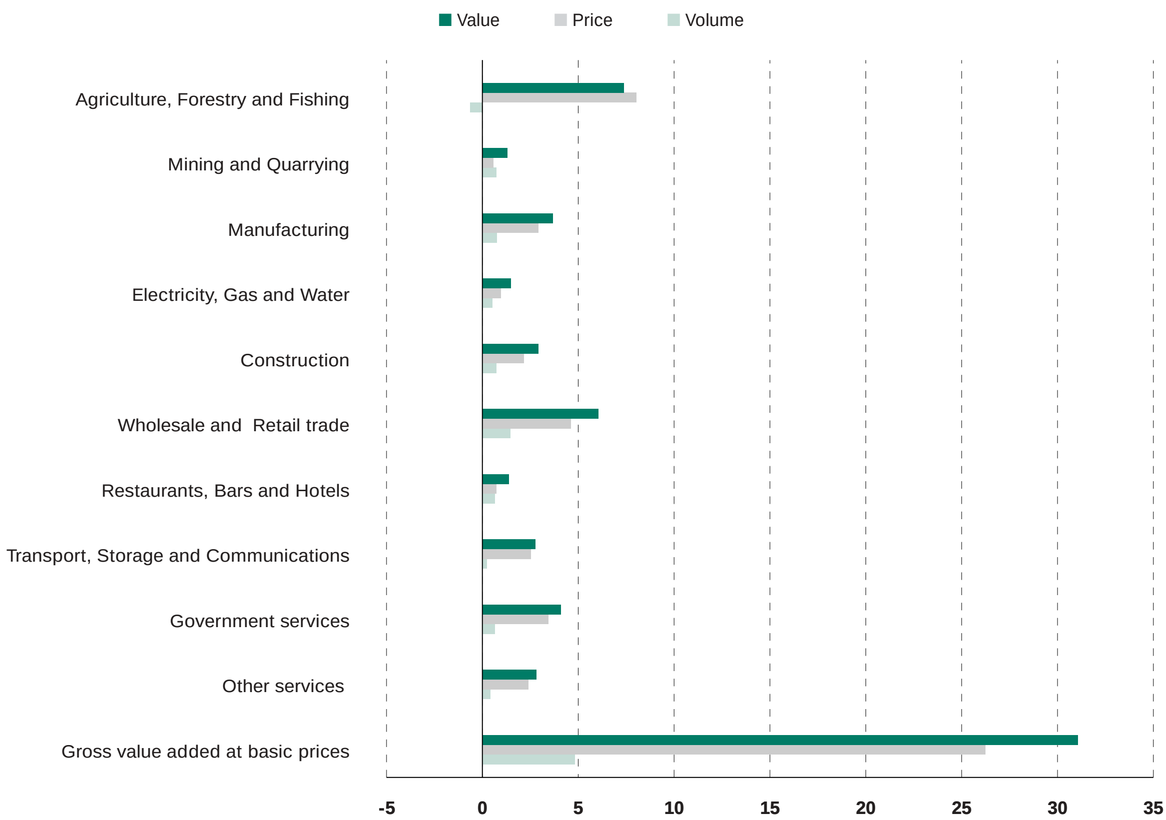
Zambia is well endowed with mineral resources and the country derives most of its foreign earnings from the export of minerals. The mining industry, which is dominated by copper and a few other minerals, namely, zinc, silver, gold and cobalt, has been the most important driving force of economic development in Zambia for over 70 years. However, owing to decreasing world prices in copper, poor investments in new and existing mines and unsupportive management practices, copper production has declined and its contribution to the sector on GDP has progressively diminished, from 19 per cent in 1992 to around 4 per cent since 1999. However, in 2001, the sector recorded a real growth of 14 per cent compared to a growth of only 0.1 per cent in 2000 and a decline of 24.8 per cent in 1999. The rebound of the mining sector was mainly due to a recovery in copper and cobalt production, arising from recapitalisation and investment activities, following privatisation of the mines in 2000. However,

Figure 3 - GDP by Sector in 2001



Source: Authors' estimates based on Central Statistical Office data.

Figure 4 - Sectoral Contribution to GDP Growth in 2001



Source: Authors' estimates based on Central Statistical Office data.

there are increasing uncertainties about the prospects of the mining sector, following the decision (January 2002) of the major shareholder in the largest mining company, the Konkola Copper Mines (KCM) to withdraw from the company and its exit in August 2002[1]. KCM's investment plans have been reduced and its output is estimated to contract. The outlook for production remains therefore uncertain, depending mainly on the performance of the smaller copper mining firms. The dominant position of copper mining in the economy has largely overshadowed the exploitation of other potential mineral resources,

1. The structural section provides a detailed illustration of the privatisation process and current situation of the mining companies.

particularly in the field of gemstone and industrial mineral, which offer great potential.

Agriculture, fishery and forestry, which account for 20 per cent of Zambian GDP, shrunk by 2.6 per cent in 2001. Compared to many other Southern African countries, Zambia has relatively abundant land and water. Some of 58 per cent of Zambia's total land area is considered as medium to high potential for agricultural production, however, only 14 per cent of Zambia's total agricultural land is currently being cultivated. The unused potential and the sector's high dependence on seasonal rainfall lead to a highly variable performance and very often food security is not guaranteed. In the 2000/01 crop season, agriculture under performed owing to scanty rains in most parts of the country at the beginning of the season, followed by excess of rainfall in some areas, and prolonged dry spells in the southern regions. The national production of maize, which is the main food crop, decreased by about 30 per cent compared to the 1999/2000 crop season (from 1 053 000 to 802 000 metric tonnes). The situation deteriorated even further in the following crop season since drought in early 2002 led to a maize shortage of 635 000 metric tonnes. It is estimated that the 2001/02 crop production will only feed 6 million people out of a total population of more than 10 million. In May 2002, as a consequence of massive drought, the Zambian government declared a national disaster with regard to food insecurity and water shortage in the southern province and asked for urgent donor assistance. In order to cope with this emergency, the World Food Programme (WFP) and many donors became involved in food aid programs. However, owing to the government's reluctance on importing genetically modified grain, the WFP imports have been limited, leaving the bulk of import to government and the private sector.

There are two main categories of farmers in Zambian agriculture: small scale and medium-large scale. Small-scale farmers are mainly subsistence producers of maize, while medium-large scale farmers produce surplus maize and other cash crop, such as horticulture – the largest growth industry in the sector – cotton, sugar, and coffee for the local market and for export. More than 90 per cent of the total land in Zambia falls under the customary land tenure system controlled and allocated by traditional authorities (village chiefs) which leads to inefficient land resources allocation and is an additional factor inhibiting the sector's growth potential. In the 1970s and 1980s, the government was highly interventionist in the agricultural sector, encouraging maize production, guaranteeing the purchase of maize at fixed prices from producers and subsidising its sale to urban consumers. Credit schemes for the purchase of fertilisers were implemented, however they failed owing to the very low rate of loan recovery. Moreover, on account of policy bias in favour of maize, infrastructure and service support to the agricultural sector discriminated against other equally rewarding activities in this sector. Since the Movement for Multiparty Democracy (MMD) came to power in 1991, it has been government policy to take steps to withdraw from the provision of agricultural inputs, to end the guaranteed maize purchases and consumer subsidies, and to privatise the mills. Against these goals and principally in response to the past poor performance of the agricultural sector, the Agricultural Sector Investment Programme (ASIP) was launched in January 1996. While the programme succeeded in promoting the diversification away from maize towards higher value added crops (i.e. cotton, tobacco, sugar, vegetables and flowers) and in the restructuring of the Ministry of Agriculture, failures were experienced in ensuring national and regional food security, and in promoting private sector involvement in commodity marketing and input supply. The main challenges faced by the sector include poor service delivery for small-scale farmers, marketing constraints in outlying areas as a result of poor infrastructure (notably feeder roads), a void in agricultural finance and credit, a weak regulatory framework, and poor accessibility and administration of land.

The new government, elected in December 2001, has set agriculture as the priority sector to promote Zambian economic growth and announced radical moves to tackle shortages, including contracting with large-scale farmers to produce maize under irrigation, construct dams, and provide fertilisers and pesticides to smallholders. Furthermore, the government intends to create a Crop Marketing Authority (CMA) that will be a buyer of last resort and which will maintain strategic reserves.

The manufacturing sector, which accounts for 11 per cent of GDP, registered a growth of 5.8 per cent in 2001. Besides the fabricated metal product sub-sectors, which registered a decline of 4 per cent in value added, all the sub-sectors of manufacturing recorded an increase. Food, beverages and tobacco, which are the largest manufacturing sub-sectors, grew by 5.1 per cent. This performance was due to the improved access of Zambian products to markets in the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the EU following the signing of the SADC Trade Protocol and the coming of the Free Trade Area (FTA) in COMESA. In addition, textile and leather products, which represent the second biggest contributors to manufacturing, grew by 6.8 per cent, mainly owing to increased export demand for textile products such as cotton yarn and lint. Increased activity on the mines led to additional demand for basic metals. Despite these positive achievements, the development of the sector is constrained by a series of bottlenecks. These include a narrow export base, unfair competition arising from smuggling and export subsidies in some trading partner economies. Other constraints, which will be further discussed in the structural section, are lack of long-term capital, high cost of energy, and inadequate infrastructure.

The major contributors to the service sector are wholesale and retail trade, which accounts for 19 per cent of GDP. In 2001, wholesale and retail trade grew by 6.0 per cent. Tourism is also growing and its development is strongly encouraged by the authorities. The rapid growth of the sector is nevertheless constrained by several factors, such as inadequate infrastructure and marketing and Zambia's reputation of being a high cost destination (owing to expensive air transportation). Despite these shortcomings, the trend of tourist arrivals and investments has steadily increased in the last five years. In 2001, the solar eclipse, as well as the OAU Heads of State Summit accounted for much of the growth in both arrivals and earnings. Furthermore, the opening of the Sun International Hotels in Livingstone near the famous Victoria falls in 2001 also boosted the tourism sector. It is estimated that Restaurants, Bars and Hotels subsectors grew by 24 per cent in 2001 compared to 12 per cent in 2000.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Gross capital formation	**13.1**	**17.6**	**18.6**	**20.0**	**20.7**	**20.4**
Public	9.1	10.6	9.9	11.6	12.3	12.1
Private	4.0	7.0	8.7	8.4	8.4	8.2
Consumption	**92.7**	**92.8**	**95.2**	**95.8**	**94.8**	**94.2**
Public	16.6	13.9	13.8	17.2	17.7	18.0
Private	76.6	78.9	81.3	78.6	77.1	76.2
External sector	**-5.8**	**-10.4**	**-13.8**	**-15.8**	**-15.5**	**-14.5**
Exports	37.0	26.9	26.9	29.2	29.1	28.7
Imports	-42.8	-37.3	-40.7	-45.0	-44.6	-43.2

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

In 2002 and 2003, private investments are estimated to decrease as a consequence of the uncertainty surrounding the future of the KCM mines, while public investment continue their growing trend according to the increase in capital expenditures envisaged in the budget and in the Poverty Reduction Strategy. Government consumption is also estimated to rise on account of the increase in agricultural spending.

Macroeconomic Policy

Fiscal and Monetary Policy

During the 1990s, the Zambian economy suffered from high inflation, budget and current accounts deficits and exchange rate volatility.

Table 2 presents a more detailed quantitative analysis of government fiscal policy. On the revenue side, its main features are: a quite balanced distribution of revenues across different sources — such as income taxes, domestic and international trade indirect taxes; a strong dependency on foreign support — grants represented around 30 per cent of total revenues in 1999 and have shrunk to around 25 per cent in 2000 and 23 per cent in 2001; and a reduction in non tax revenues, mainly due to a decline in privatisation receipts. It should be noted that, in 2001, tax revenues, especially direct taxes, but also trade taxes, have produced better than expected results due to sustained GDP growth. On the other hand, mineral royalties have diminished, on account of tax exemptions granted to the newly privatised mines. Additionally, general budget support grants, in contrast to specific project grants, have recorded a sharp reduction due to donors' concerns over Zambia non-compliance of some conditionalities regarding the implementation of structural reforms. In total, external programme assistance has declined from \$539 in 1999 to \$376 million in 2001.

On the expenditure side, most of the current expenditures are non-discretionary and linked to wages and salaries (6.8 per cent of GDP in 2001) and other recurrent government operations. Besides, given the past accumulation in the stock of domestic debt and high interest rates, the servicing of domestic debt has become a key issue. The stock of domestic payments arrears amounted to 2 per cent of GDP in 2001. Among the capital expenditures, the most important recent public investments have been in road maintenance and rehabilitation (27 per cent of total capital expenditures in 2001) in order to support the agriculture and tourism sectors.

The overall fiscal deficit for 2001 was about 8.1 per cent of GDP (exceeding the target of 7.4 per cent), mainly owing to overruns in capital and other expenditures in the last quarter of 2001 as a result of the presidential elections. The government has begun to implement some much needed expenses control mechanisms and to consolidate its diverse accounts in an attempt to eliminate various non-transparent and discretionary accounts and thus more tightly control its overall outlays.

A major development for the future is the implementation of the medium-term macroeconomic targets set in the 2002-04 Poverty Reduction Strategy Paper, issued in May 2002. Focusing on poverty reduction programmes (targeted at 2.2 per cent of GDP per year) and continuing its strong revenue effort, the medium-term fiscal strategy aims at narrowing the fiscal deficit to 6.4 per cent of GDP in 2004.

However, the massive maize purchase to avert food famine has put pressures on government finances. Moreover, the government's wage bill increased in 2002 following a large wage increase granted to public workers in November 2001, and, on account of the high inflation, it may continue to rise in 2003. The domestic interest bill has also grown compared to 2001 along with the increase in interest rates and the stock of government paper outstanding. In addition, revenue growth has been limited owing to pro-growth tax incentives (lower duty on diesel fuel, lower tax on electricity and reduced direct and indirect taxes) and donor's support is estimated to have been \$15 million lower than the programme target of \$160 million. The deficit in 2002 is therefore estimated at 8.9 per cent of GDP. A projected further increase in the wage bill and the potential additional costs of maize imports will lead to a fiscal deficit in 2003 of 9.4 per cent of GDP.

Zambian monetary policy primary objective is inflation reduction. Zambian consumers suffered high levels of inflation throughout the 1990s with the rate peaking at 188 per cent in 1993. This fell to an annual average of 26 per cent at the end of the decade reducing to 21.7 per cent in 2001. The Bank of Zambia (BoZ) main instrument is the control of monetary aggregates, and it operates within a fully convertible foreign exchange market. Although fully independent from the Treasury, in 2000 the BoZ needed to accommodate

Table 2 - Public Finances (percentage of GDP)

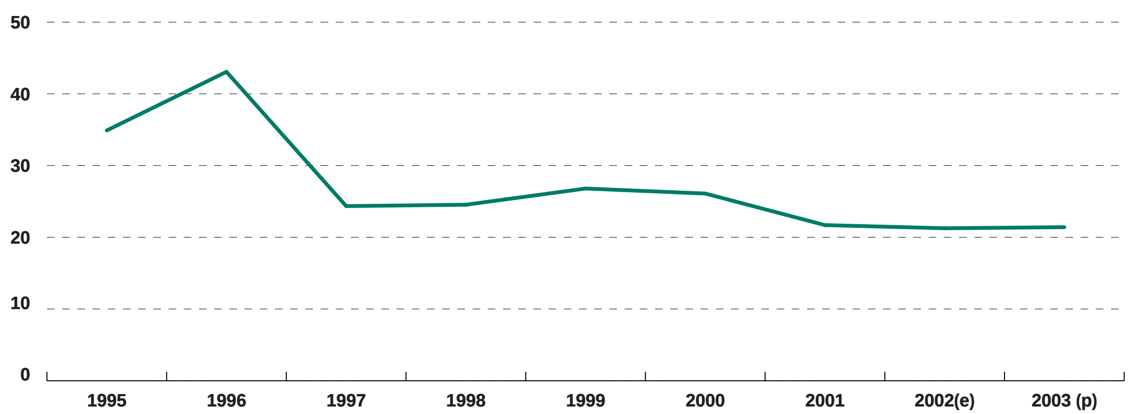
	1995	1999	2000	2001	2002(e)	2003(p)
Total revenue and grants[a]	**29.0**	**25.7**	**23.2**	**24.8**	**24.4**	**23.8**
Taxes	18.2	17.2	17.3	18.6	18.4	18.1
Grants	9.1	8.0	5.7	5.7	5.5	5.2
Total expenditure and net lending[a]	**33.4**	**29.7**	**31.0**	**32.9**	**33.3**	**33.1**
Current expenditure	24.2	16.8	16.1	20.2	20.9	20.9
Excluding interest	*15.6*	*12.3*	*12.1*	*16.2*	*16.7*	*16.9*
Wages and salaries	5.9	5.4	5.3	6.8	7.0	7.1
Interest on public debt	8.6	4.5	4.0	4.0	4.3	4.0
Capital expenditure	9.1	10.6	10.0	11.5	12.6	12.5
Primary balance	**4.3**	**0.5**	**-3.8**	**-4.1**	**-4.6**	**-5.4**
Overall balance	**-4.3**	**-4.0**	**-7.8**	**-8.1**	**-8.9**	**-9.4**

a: Only major items are reported.
Source: Authors' estimates and prospects based on Ministry of Finance and Economic Development and IMF.

the government borrowing requirements (emanating from debts service obligations, domestic expenditures, and government lending to its remaining loss-making enterprises) especially in a situation where foreign support had reduced, the balance of payment deteriorated, the kwacha depreciated sharply, and price of fuel, transport and other services increased. The resulting expansion of domestic credit, combined with cost-push factors exacerbated the pressure on domestic prices. In 2001, the central bank tightened its monetary policy by increasing statutory cash reserve requirements and by pursuing more aggressive open-market operations. This resulted in a sharp increase in interest rates (on 91-day treasury bills) from 34 per cent at the end of 2000 to about 45-50 per cent during the latter part of 2001, in a real appreciation of the kwacha against the US dollar, and in a reduction of the year end inflation to 18.7 per cent. Zambia recently found itself in a domestic debt trap where the domestic debt accumulated fast, interest rates were high, and government margins for reduction of expenditure were meagre. For the immediate future, the key challenge for macro policies in Zambia is the reduction of real interest rates without losing control of inflation. While the yield on 91-day Treasury bills declined to nearly 30 per cent at end-August 2002, commercial banks lending rates remained high.

The authorities have set an end of the year inflation target of 13 and 8 per cent for 2002 and 2003 respectively. However, the shortfall in maize supply has put further pressure on prices and, in the first eight months of 2002,

Figure 5 - Inflation Rate



Source: IMF and Central Statistical Office data.

inflation averaged 22.7 per cent. Average inflation for 2003 is expected to remain around 21 per cent.

The foreign exchange market was characterised by excess demand for foreign exchange over 2002 in order to meet the cost of importing maize. These foreign currency demand pressures together with the effect of the uncertainties in the copper sector resulted in a steadily depreciating trend of the nominal value of the Kwacha-US dollar exchange rate (the year to August depreciation rate stood at 16 .7 per cent).

External Position

During 2000 and 2001, balance-of-payments developments were mixed. In 2000, the deficit of merchandise trade increased sensibly due to a larger increase in the import bill relative to export revenues. Imports of oil and oil products have been the main cause of concern given the rise in prices and the closure of the main domestic refinery. In addition, the re-capitalisation of the mines induced higher imports of expensive capital and intermediate goods. Metal exports performed well on account of rising copper prices and increased demand from East Asian economies, but non-traditional exports, such as tobacco, cotton yarn and lint, fresh flower and gas oil continued a decline that has lasted for some years. This is mainly attributed to stiff competition from other regional economies. The capital and financial accounts also declined reflecting reduced FDI inflows and project loans. This latter trend also severely affected the year 2001 which recorded a substantial shortfall in EU assistance. However, 2001 was also characterised by a strong export performance of copper, thanks to the privatisation of mines which resulted in a 27 per cent increase in copper export volumes; non-traditional exports recorded a growth of 13 per cent owing to a strong performance by horticulture and floriculture. The solar eclipse and the opening of the Sun International Hotels in Livingstone were partly responsible for the sharp increase in tourism earnings. This strong export performance was more than offset by a substantial increase in imports, particularly of equipment for the mining sector, resulting in a current account deficit of 20.6 per cent of GDP. Although the overall balance-of-payments deficit was broadly in line with the programme target, the targeted reserve build up was not reached owing to a substantial shortfall in external assistance. In 2002, imports of equipment for the mining sector are estimated to have decreased on account of less investment in the KCM mines, while maize imports have increased. On the other hand, exports of copper have slightly increased in 2002, as a result of the output of smaller mining firms. The year 2003 is likely to reproduce the same trend in import and export patterns, with copper exports slightly increasing, reflecting higher copper prices. Foreign direct investment is expected to grow by 14 per cent particularly in non-related copper sectors.

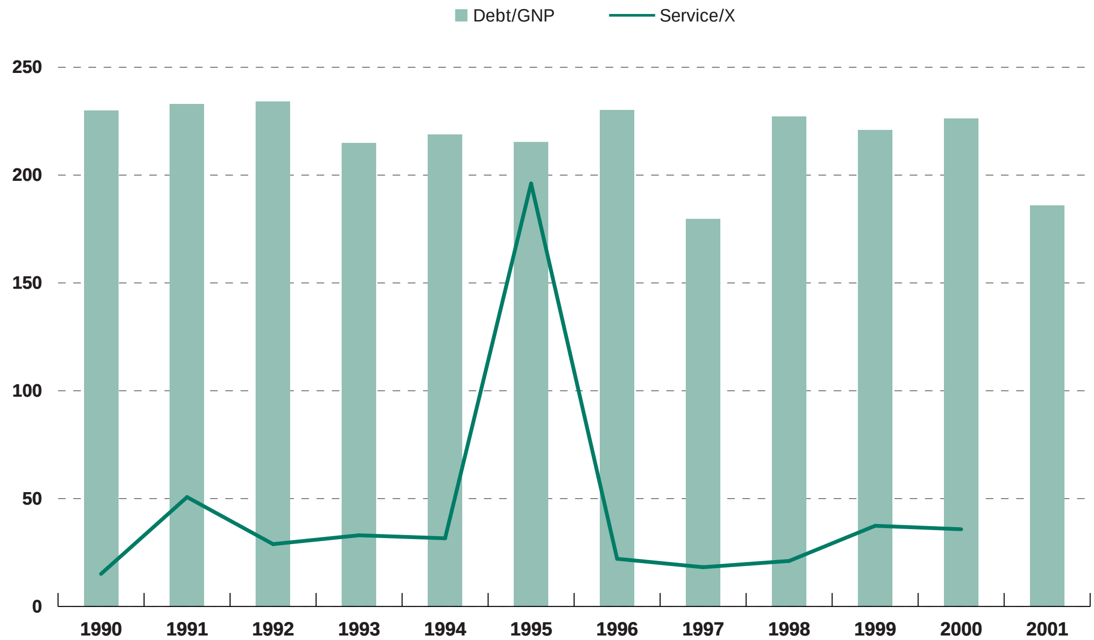
In late 2000, Zambia reached the decision point under the Enhanced Heavily Indebted Poor Country (HIPC) initiative. This is expected to help reducing the country's external debt commitments, standing at $6.3 billion at the end of 2000. The programme target for the debt relief in 2001 was of $292 million, however, owing to delays in agreeing on a Paris club rescheduling on Cologne terms, the total interim debt relief was about $278 million.

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Trade balance	-0.2	-4.8	-6.8	-9.8	-9.7	-8.8
Exports of goods (f.o.b.)	34.2	24.7	23.4	24.9	24.8	24.7
Imports of goods (f.o.b.)	-34.4	-29.4	-30.2	-34.7	-34.5	-33.5
Services	-5.6	-6.7	-6.9	-6.3		
Factor income	-7.0	-5.0	-4.5	-3.8		
Current transfers	8.6	-0.5	-0.6	-0.6		
Current account balance	**-4.2**	**-17.0**	**-18.8**	**-20.6**		

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

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



Source: World Bank.

In 2002 the interim debt relief under the enhanced HIPC initiative amounted to $266 million. Such interim debt relief together with the World Bank disbursement of $56 million allowed the BoZ to build up gross international reserves to $166 million at the end of June 2002, compared to the programme target of $159 million.

At completion point, which is targeted by 2003, Zambia's creditors would write off some $3.8 billion of debt in nominal terms. However, the reaching of the completion point is dependent upon sustained economic restructuring and the successful implementation of the Poverty Reduction Strategy Paper for at least one year.

Structural Issues

A broad based economic reform programme started in 1991, with the advent of the Movement for Multiparty Democracy (MMD) government which embraced donor-advised structural adjustment policies and promoted the transition from a centrally planned economy to a market based economy. Notable progress has been made in trade liberalisation, privatisation, deregulation of prices, and ending of foreign exchange control.

Privatisation was included in the MMD manifesto as a centrepiece of economic reform and it came about more as a practical way to recapitalise the State Owned Enterprises (SOEs) and to let them operate efficiently and viably. When the MMD government came into power, more than 80 per cent of the companies were state owned, ranging from mines, utilities, financial services to launderettes and bakeries. Generally, SOEs were characterised by undercapitalisation, over staffing and inefficiency which contributed to their inability to make profits and effectively rendered most of them unsustainable business ventures. They were also a drain on the limited government resources in terms of investment requirements and subsidies whilst achieving a negative return to government. Moreover, several members of SOE management were allegedly not accountable for commercial return but for political patronage and, therefore, privatisation was seen as an important way to remove all political interference in the running of SOEs.

A structured, finalised privatisation programme started in July 1992 with the enactment of the Privatisation Act of 1992, which gave the legal basis to the privatisation programme and attributed the Zambia Privatisation Agency (ZPA) the responsibility for all government privatisation issues. The divestiture process took place in different phases, starting from the privatisation of the small and medium enterprises, and then proceeding to the larger companies.

In order to encourage the citizens' participation in the privatisation programme, the Privatisation Act allowed the payment of the purchase price of privatised SOEs on deferred terms by Zambians. Furthermore, the Ministry of Finance established the Zambia Privatisation Trust Fund where some designated shares of privatised companies were held for future flotation to the Zambian public on the Lusaka Stock Exchange. Since the establishment of the Privatisation Trust Fund, seven companies have been offered for sale to the Zambian public. Most of the companies were sold through Management/Employee Buy-outs. However, another method of Zambian participation in privatisation used has been through the decision by government to sell non-core assets (such as parastatal residential houses) to Zambian sitting tenants. A total of 257 SOEs had been privatised as of 30th April 2002 out of a working portfolio of 280 SOEs. Of all the SOEs privatised, 65 per cent were sold to Zambian individuals, 29 per cent to foreigners while 6 per cent were wound up. Despite the substantial number of companies privatised so far, it should be taken into account that the largest companies in vital economic sectors such as utility, oil and financial sector are still state owned and the mines, which represent the greatest country's asset, were privatised only in 2000. Indeed, while most of the small and medium enterprises were privatised by the mid-1990s, the government dithered over the sale of the largest companies which became more unproductive, inefficient and over staffed, characterised by bad management, lack of investment and corruption. The substantial delay was due to vested interests in retaining the so-called strategic companies in the state's hands. This has been the case of copper mines, which were considered national treasures, and have been the object of profound disagreements within the government and mining circles with regard to their disposal. The need to sell mines, however, became increasingly acute from 1998, as they started to incur substantial losses and donors made their aid conditional on the mines' privatisation. In March 2000, a consortium led by the Anglo-South African mining firm, Anglo-American Corporation, bought the largest mining company, Konkola Copper Mines (KCM) which account for about two-third of the country's copper production. The acquisition took place when the KCM's asset value was much lower owing to the obsolescence of the plant and the slump in copper prices. In January 2002, after incurring substantial losses ($108 million in the two years until December 2001, while the acquisition price was $90 million), Anglo-American announced its decision to pull out from the mines. In August 2002, Anglo-American divested completely, agreeing to leave in place its management team, and providing a financing package of $105 million which covers virtually all of KCM's expected operating deficit for 2002/03. The government is committed to running the mines until a new strategic investor is found. In order to support the government's effort the World Bank and IMF have to broaden their external assistance.

Privatisation in Zambia produced mixed results. The process suffered from political interference and bad sequencing. Although placed quite easily, most small and medium enterprises encountered difficulties due to major bottlenecks such as lack of access to cheap finance for re-investment, poor management capabilities and stiff competition following the liberalisation of the market. In addition, manufacturing companies producing products for the mining industry (chemicals, rubber, and plastics) suffered from stagnating demand owing to the delayed privatisation process in the mining sector. Only companies acquired by foreign capital, such as in the sugar and cotton sector, managed to survive and expanded their production. Furthermore, the privatisation process encountered a number of obstacles. Many privatised companies were dismantled and ZPA did not have either the capacity to prevent or to monitor. Considerable employee terminal benefits, inherited from the previous government labour law, led to over staffed parastatals. In summary, although the privatisation in Zambia achieved the objective of reducing government budgetary costs arising from subsidies and capital expenditures, it did not really promote economic growth nor created a sound private sector.

The new government, elected in December 2001, has promised to complete the process, privatising utility parastatals, such as the Zambia telecommunication company (ZAMTEL) and the Zambia Electricity Supply Corporation (ZESCO). Moreover, the deregulation of petroleum prices and imports has been completed and there are plans to effectively privatise the oil sector refineries, such as the Tanzania-Zambia pipeline (Tazama), the Indeni oil refinery and the Zambia National Oil Company (ZNOC). In order to overcome the lack of transparency associated to certain deals, especially in mining, the authorities are more in favour of concession agreements (as agreed for Zambia Railways). However, the public reaction to these changes has been somewhat negative, as was demonstrated in 2002 when the unions and other NGOs staged a protest march against the sale of ZESCO, ZAMTEL and ZANACO (the Zambia National Commercial Bank). There also seems to be government level disagreement about the way forward with the privatisation process, which could also threaten the allocation of the HIPC funds from the IMF, should this process cease.

In spite of the government's encouragement of the citizen's empowerment, the private sector participation in the economy has been undermined by weak macroeconomic stability and lack of an appropriate economic infrastructure. Specific problems include high inflation, erratic exchange-rate movements, steep interest charges and high import duties on fuel and other essential inputs which all make investment planning difficult with increased uncertainty and risk. In particular, the most important constraint to the development of a sound private sector is the cost of long term investment finance. Commercial lending is very expensive on account of the government's enormous borrowing requirements which crowd out the private sector's requirement. Commercial Banks hold around 70 per cent of Zambia's total Treasury Bill's issuance. Actual rates charged to investors are closer to 50 per cent nominal. Even in real terms, these rates remain extremely high, at around 20 per cent, per annum.

The various donor funded capital access schemes for the private sector had little impact and a succession of several state-owned development banks providing credit to small farmers have failed owing to low recoveries, political interference and poor management. This vacuum has determined that only individual entrepreneurs with sufficient collateral are able to borrow from private banks but high interest charges and stringent borrowing requirements still severely restrict small traders and farmers' access. In addition, production costs are very high due to elevated factor costs for energy (e.g. electricity), transport (e.g. fuel prices) and communications.

Another major constraint is represented by a private sector not cohesive and not organised into a single national framework. In order to build a common platform to voice private sector interests, a number of private sector intermediary organisations have been growing rapidly since the mid-1990s. The most established is the Zambia Association of Chamber for Commerce and Industry (ZACCI), Zambia Association of Manufacturers (ZAM), Zambia National Farmers Union (ZNFU), Zambia Chamber of Small and Medium Business Associations (ZCSMBA), and, Zambia Export Growers Associations (ZEGA), but most recent structures include the Private Sector Development Association and the Zambian chapter of the Southern African Enterprise Network. Intermediary associations provide training and advisory services, act as a conduit for developing business contact and sources of funding, and increasingly enter into dialogue with the government on policy related matters for their members. In addition, many governmental and non-governmental bodies are involved in the promotion of new areas of investment. The Zambia Investment Centre, in particular, is working on the New National Investment Plan which encourages private sector investment and identifies new investment opportunities in export oriented agriculture, light manufacturing, small scale mining and tourism.

Zambia has among the most liberal banking regulations in the region. The country has 16 commercial and retail banks. The major commercial bank in the country is the state owned Zambia National Commercial Bank (ZANACO) which is heavily indebted. The bank has branches in every district and its liquidation would determine the collapse of the entire system of payment. In December 2001, the Zambia Privatisation Agency advertised the sale of a 35 per cent stake of ZANACO, however there has been no expression of interest owing to the lack of majority control for the buyer and uncertainty about the status of the balance sheet. In response, in May 2002, the Cabinet has approved the sale of at least 51 per cent of government's share in the bank and the government cleaned up the balance sheet and issued a bond valued at K250 billion ($51 million) to recapitalise the bank.

As part of the government's economic reform programme aimed at developing the financial and capital market, the Lusaka Stock Exchange (LuSE) was established in February 1994, with preparatory technical assistance from the International Finance Corporation (IFC) and the World Bank in 1993. Currently, 11 companies are listed. Among those, seven have been offerings on the back of Zambia's privatisation programme, in which shares have been advertised to the Zambian public only. The Zambia Sugar Plc public offer, in late 1996, was the only exception in which shares were also offered to international investors, because the shares on offer were a combination of those warehoused by the Zambian Privatisation Trust Fund and those owned by the Commonwealth Development Corporation (CDC). Several incentives have been put in place to promote rapid development of the capital market in Zambia. These include the following: no exchange controls, no restrictions on shareholding levels, no restrictions on foreign ownership, no capital gains tax, and corporate income tax reduced to 30 per cent for companies listed on the LuSE.

Zambia' s population of about 10 million and a territory of 750 000 km^2 is served by a transport infrastructure consisting of a road network of 37 000 km of primary, secondary and tertiary roads, a rail network of approximately 1 700 km, one international and three regional airports. Three of the major roads run parallel to the railways. Over the years, the state of the road infrastructure in the country has deteriorated as a result of lack of maintenance. The main problems have been institutional and financial, which relate to inadequate and erratic flow of funding and lack of clearly defined responsibilities among road management actors. The poor state of rural feeder roads inhibits mobility and accessibility. As a result, access to farm inputs and marketing of farm produce is also made very difficult and thus deepens poverty in rural areas, where 62 per cent of the population lives. Road repairs have been undertaken under the Road Sector Investment Programme (ROADSIP), which is a partnership between road users, the government, and donors to bring a core network of the road to maintainable conditions. The project started in 1998 and during the first three years of implementation substantial improvements to the paved road network have been achieved. Under the 2002-04 Poverty Reduction Strategy Paper, ROADSIP II has been launched in order to continue with the objective set in the first phase.

The rail network comprises the Zambia railways, running from the Zimbabwean border in the south to the Congolese border, and the Tanzania Zambia Railways (TAZARA), jointly owned by Zambia and Tanzania, which links the former to the port of Dar es Salaam. Also the rail network is in poor conditions and low maximum speeds are imposed on many sections of the network. However, the Railway industry is in transition, internal reorganisation and staff reduction have resulted in an improvement of Zambia Railways financial performance. Tenders have been published in 2001 for the privatisation of its operation under a concession agreement.

Political and Social Context

Zambia is one of the most politically stable countries in Southern Africa. The independent state of Zambia was created in 1964 and Dr Kenneth Kaunda of the

United National Independence Party (UNIP) was its first president. After two decades of the UNIP one-party rule, Zambia's returned to multi-party in the 1991 elections which resulted in the victory of the Movement for Multi-Party Democracy (MMD) and the election of President Frederick J.T. Chiluba, a former trade unionist. Although the newly liberalised political environment opened the way for comprehensive economic reforms and reversed the UNIP centrally planned trend, the Chiluba era (which lasted for a decade) has been highly characterised by allegations of corruption and political interference in the economic sectors (Zambia is ranked 75th — out of 91— on Transparency International Corruption Perception index). Zambia held presidential, parliamentary and local government elections on December 27, 2001 with both international and local monitoring. The new President is Levy Mwanawasa of the ruling party, who defeated lead opposition candidatae with a slim victory, 29 per cent to 27 per cent.

The new government has taken steps to fight corruption, strengthening the Anti-Corruption Commission, the Office of Auditor General and other relevant government institutions and improving the transparency and accountability in the management of public resources. Furthermore, a law against money laundering and related vices has been recently approved. In line with these measures, another important sign of the government's commitment to improve governance emerged in the President's speech of July 2002. On that occasion, President Mwanawasa highlighted a number of high profile corruption cases involving high ranking officials and political and business leaders, leading to the removal of all the officials involved.

The poverty situation in Zambia has dramatically worsened in parallel with the poor economic performance of the country in the last thirty years (per capita income in 2000 was about 60 per cent of its level in late 1960s). According to the 1998 Living Conditions Monitoring survey in Zambia, around 73 per cent of Zambians are classified as poor[2] (compared to 69.7 per cent in 1991). The majority of people suffer from weak purchasing power, homelessness, and insufficient access to basic necessities such as education, health, food and clean water. In the 1990s, the HIV/AIDS pandemic has worsened the poverty situation. Poverty is more prevalent in rural areas compared to urban (83 per cent and 56 per cent respectively) but it has risen faster in urban areas lately due to failing industries and rising unemployment. Most of the rural poor are small scale farmers followed by medium scale farmers and rural poverty is largely attributed to poorly functioning markets for agricultural output and to low agricultural productivity because of poor utilisation of agricultural inputs and inadequate irrigation systems. Therefore, farmers are highly vulnerable to the weather for their crops, as patently demonstrated by the drought that hit the country in 2002 that, as mentioned earlier, determined a food shortage of 635 000 tonnes and exposed 2.3 million people to the risk of starvation.

Interventions to promote a self sustaining agricultural sector and ensure increased household income and food security are envisaged in the Joint government – donor Poverty Reduction Strategy Paper. Completed in early 2002, the Poverty Reduction Strategy Paper for the years 2002 – 2004 focuses on measures to reduce the poverty rate to 65 per cent of the population in 2004 (its level of 1996)[3] and achieve strong sustained economic growth. Although agriculture is a priority, the document sets out goals and policy actions in other vital economic sectors, such as: industry, mining and tourism. Important objectives are set also to promote equitable and efficient health and education services in the country. The strategy is budgeted at $1.2 billion over 2002-04. It is estimated that the external financing requirement will amount to 1 125 million over 2002-04, of which the expected HIPC resources amount to about $773 million.

2. The Central Statistical Office determines the household poverty line as the amount of monthly income required to purchase basic foods to meet the minimum caloric requirement for a family of six people.

3. Rural poverty is to be reduced from 83 per cent to 75 per cent and urban poverty from 56 to 50 per cent.

Zambia is one of the hardest hit countries in the worldwide HIV/AIDS pandemic, with a national average of 21 per cent in the 15-45 age group. The percentage of HIV sero-prevalence is 29 per cent in urban areas (mainly Lusaka and the Copperbelt) and 14 per cent in rural settings. Mobility is one of the determining factors of the spread of HIV/AIDS. After urban areas, prevalence of HIV/AIDS is highest among the major transport routes. It is estimated that Zambian life expectancy has fallen from 51 years in 1990 to 41.4 in 2000; and the rate of population growth has declined from 3.5 per cent (in the 1980s) to about 2.9 per cent in 2000. This is largely due to the effects of AIDS. Also AIDS related diseases have become prominent; tubercolosis related cases have risen and other diseases continue to have a negative impact on the health status, including malaria, diarrhea and respiratory tract infections. Although recent surveys suggest that the HIV prevalence has stabilised and has even been reduced among young people in urban areas, the high incidence of HIV/AIDS constitutes a serious restriction for development efforts. Moreover, the general health status of Zambia's population has worsened over the past two decades**.** The infant mortality rate is 109 per 1 000 births and the maternal mortality rate is 649 per 100 000 births, one of the highest in Africa. In 1992, the Government began taking a decentralised approach to health services with the goal of providing "Zambians with equity of access to cost-effective, quality health care as close to the family as possible." Zambia's decentralisation of health services marked a radical departure from past approaches, often excessively centralised. The Sector Wide Approach (SWAp) works by moving responsibility for essential service functions to the district level to make services more responsive to local needs and accountable users. In 1993, the introduction of user fees, theoretically refundable to those in extreme poverty, has generated much needed new revenue, but has also driven many away from the health service because of lack of funds. Furthermore, despite the Ministry of Health's accomplishments to date, much remains to be done before all Zambians have access to quality health care. There are problems of poor physical infrastructure and equipment, poor participation, and inadequate resource allocation. Health care spending accounted for 1.9 per cent of GDP in 2001. However, the government was intending to increase health spending to 3 per cent for 2002. In the framework of the PRSP, and according to the newly launched National HIV/AIDS/STD/TB Strategic framework (2001-03), public health priorities have been identified. These include: improving service delivery of basic health package, rehabilitating infrastructure, and investing substantially in HIV/AIDS awareness campaign. 7.9 per cent of the PRSP budget has been allocated to implement the above mentioned priorities.

The Zambian education system has seriously deteriorated over the last thirty years as a result of economic decline, lack of resources and institutional inefficiencies. Moreover, the introduction of fees for government primary schools in the 1990s determined further drops in attendance. According to the 1998 Living Conditions Monitoring Survey in Zambia, the net primary enrolment rate is at 66.4 per cent. However, attendance rates are much lower in rural areas and it is estimated that among those that enter Grade 1, only about two-thirds complete school through Grade 7. The school attendance rates of girls is generally lower than that of boys, and, in rural areas, is much lower. At secondary level, the net attendance rate is about 25 per cent (38 and 15 per cent in urban and rural areas, respectively. According to the Zambia Poverty Reduction Strategy, the secondary school level has suffered from a lack of programmes of expansion, rehabilitation, educational material support, and curriculum review. As a consequence, the quality of teaching and learning has been severely affected. Currently, less than 50 per cent of primary school leavers are absorbed by secondary schools. Very few students graduating from secondary schools find places in tertiary institutions due to a severely limited number of institutions. The stagnation of school enrolment is on account of a number of long-standing problems including inadequate numbers of schools and long distances between homes and school facilities. School infrastructure has also deteriorated. Furniture, textbooks and learning materials in most schools are in very short supply or non-existent. Zambia's HIV/AIDS crisis further undermines the educational system by significantly increasing teacher absences and causing dramatic increases in the number of school-age orphans. The policy for the education sector was laid down in 1996. The Basic Education Sub-Sector Investment Programme (BESSIP) is the main instrument for implementing that policy. Targets include improved school infrastructure, sufficient textbooks and resources, more and better educated teachers, expanded access for girls, and improved health and nutrition. Under the PRSP, the BESSIP programme will be extended to secondary school and an equity programme is envisaged that will bring the abolition of fees at basic level. Other measures include development of guidelines for cost sharing for levels other than basic education. In line with the PRSP objectives, the government is committed to devote more resources to the sector. According to the Ministry of Finance and Economic Development, the government spent 3 per cent of GDP in 2001 on education, compared to 2.5 in 2000.

Zimbabwe

key figures

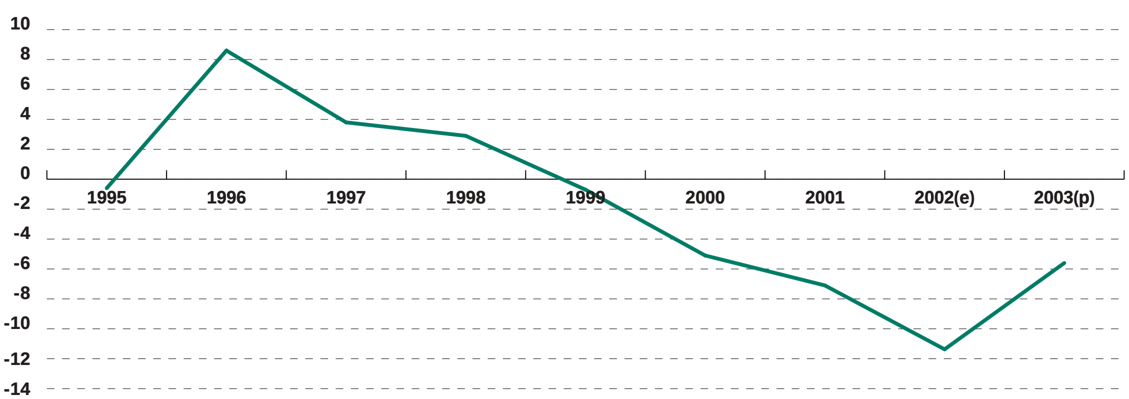
• Land area, thousands of km²	391
• Population, thousands (2001)	12 852
• GDP per capita, $ (2001)	371
• Life expectancy (2000-2005)	42.9
• Illiteracy rate (2001)	10.6

Zimbabwe

THE SEVERE ECONOMIC AND POLITICAL CRISIS that has embroiled the country since 1997, deteriorated further in 2001 and 2002, owing to the combined effect of the increasing macroeconomic imbalances, the massive drought that hit the country during the first quarter of 2002 and the acceleration of the fast-track land reform programme, following the disputed re-election of President Robert Mugabe. As a consequence, the country is currently facing a dramatic food crisis. The cereal gap is forecast to be about 1.8 million tons and half of the population is expected to face starvation, while food importation is hampered by deepening foreign currency shortages. On top of this alarming food situation, the economy has continued to deteriorate in 2002 with the unemployment rate reaching an estimated 60 per cent. Although the government has been successful in reducing the fiscal deficit from 20.7 per cent of GDP in 2000 to 8.1 per cent in 2001, the economy has suffered from the general decline in business confidence, the loose monetary policy that more than doubled average inflation, and an overvalued fixed exchange rate. Real GDP, which had already shrunk by 7.4 per cent in 2001, is expected to contract by 11.4 per cent in 2002 against a background of continuous weaknesses in the agricultural, mining, manufacturing and tourism sectors. The current crisis is expected to worsen an already worrying social context with a society characterised by strong and persistent dualism, at least 2 million people living with HIV/AIDS, and collapsing healthcare and education systems. An increasingly worrying scenario, together with the intensification of the land redistribution process and resulting reduced agricultural productivity, are likely to determine a further GDP decline in 2003 of about 5.6 per cent.

The Zimbabwe economic and political situation continues to deteriorate aggravating an already worrying social context

Figure 1 - Real GDP Growth

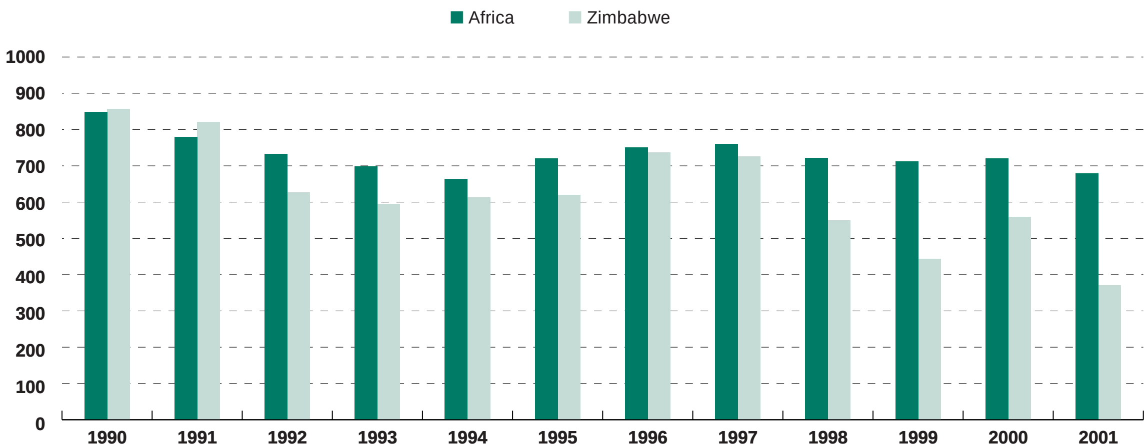


Source: : Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

After a period of sustained growth, the macroeconomic situation in Zimbabwe has deteriorated markedly over the last five years, and since 1998 the country has been facing a deep crisis. Following a flat real GDP in 1999, the crisis has exacerbated and GDP declined by 5.1 per in 2000 and a further 7.4 per cent in 2001. The excessive recourse to bank finance by the *fiscus* (treasury) fuelled money supply growth which led to an upsurge in inflation. The impact of such an inflationary environment has been a dramatic increase in production costs and reduced export competitiveness. Moreover, the economy suffered from continued

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



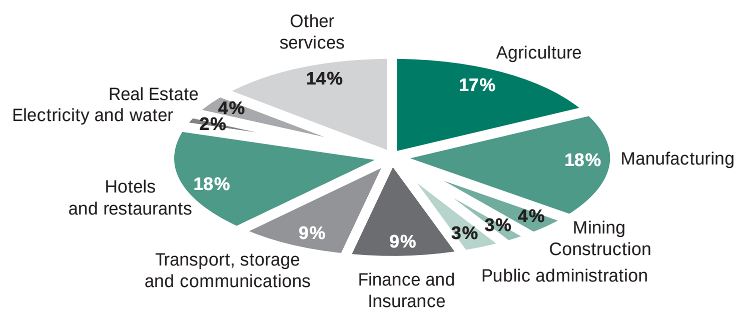
Source: Authors' estimates based on IMF data.

uncertainty over the land reform programme, declining business confidence and shortages of foreign exchange, which resulted in a drastic reduction in imports of raw material. Agriculture, manufacturing, mining and tourism – the economy's growth engines – have been the sectors most affected by the crisis.

High levels of spare capacity in manufacturing, one of the most diversified sectors in the African continent since 1999 were mainly the result of the gradual erosion of competitiveness. The high inflation experienced over the 2000-2002 period, the shortage of foreign currency, and shrinking domestic demand due to increasing unemployment and declining purchasing power, have exacerbated the decline of an already depressed sector. The volume of industrial production declined by 10.5 per cent in 2001 and is estimated to have declined by 17.2 per cent in 2002. Moreover, the overvalued exchange rate has dramatically deteriorated the export performance, while many companies (especially non-exporting ones), in the absence of foreign currency, have been forced to use the parallel market (buying US dollars at rates of more than Z$700 per unit in mid-2002) to import raw materials and spare parts. This led to an upsurge in prices and therefore exacerbated the inflation spiral. Firms that are not in a position to increase prices, owing to price controls on basic commodities put in place since October 2001, face enormous difficulties in covering production costs. The most affected industries have been the bakery, sugar, cooking oil, furniture and milling industries. As a result, manufacturing is operating well below capacity – the average capacity utilisation is about 50 per cent for industry – and at least 500 firms closed during 2000 and 2001. Besides declines in food processing and beverages companies, the machinery and transport sectors have suffered from the weaker demand by commercial farmers as a result of the land reform process and the government's handling of property rights. Such uncertainty linked to the land reform exercise and more generally to fundamental concerns over the government's economic policy has led to a collapse in business confidence and to a continuous fall in private investments.

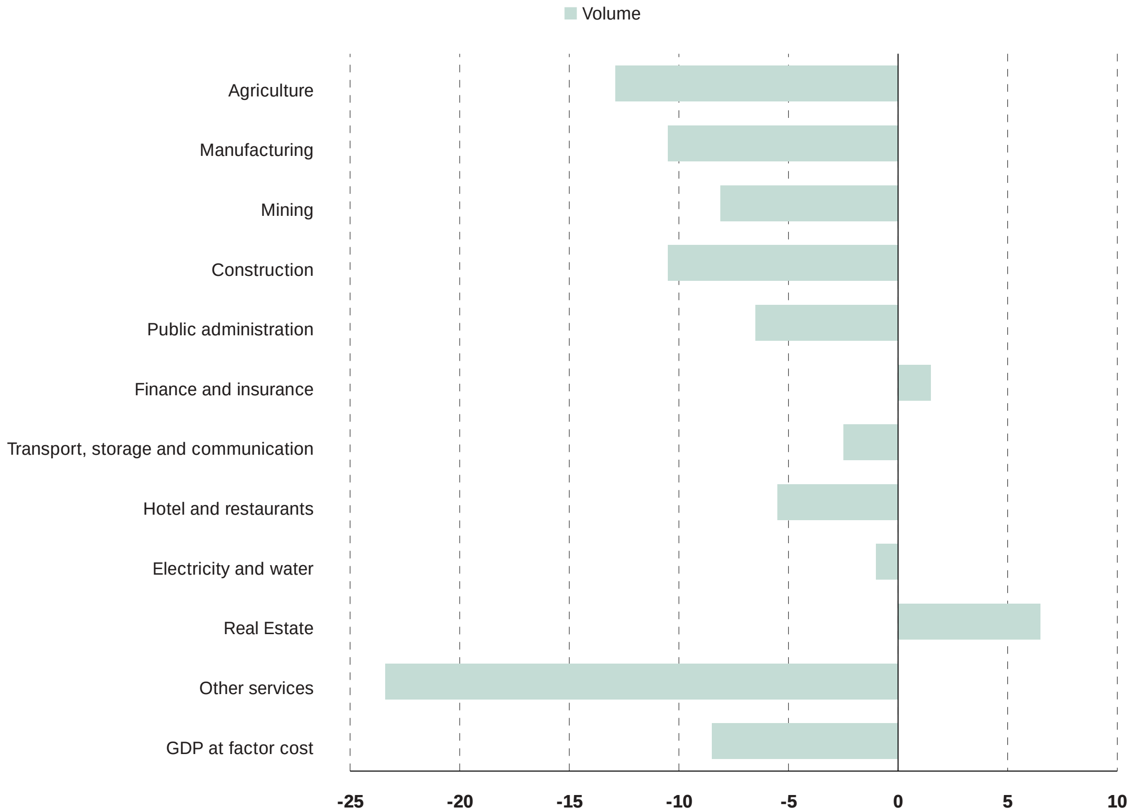
The agricultural sector is estimated to have declined by 12.9 per cent in 2001. The sharp decline in production is attributable to the erratic rainfall patterns (2000/01 mid-season dry spell and floods), and the disruption of agricultural activity by farm invasion. The sector's performance is estimated to have deteriorated further in 2002 (by 21 per cent) following the severe drought that hit the country from January to March 2002, the reduced agricultural productivity associated with the ongoing land resettlement programme, and the acute foreign currency shortage which hampers the importation of essential inputs. Maize production, which declined by 33 per cent (from a total of 2.1 million tonnes in 1999/2000 season to

Figure 3 - The Structure of GDP in 2001



Source: : Authors' estimates based on domestic data.

Figure 4 - Sectoral Contribution to Real Growth in 2001[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 Table 1. No consistent data were available for sectoral price evolution.
Source: Authors' estimates based on domestic data.

about 1.4 million tonnes in the 2000/01 season), is estimated to have declined by 66.2 per cent in the 2001/02 season to 0.49 million tonnes. Also winter wheat is forecast to fall sharply (to 165 000 tonnes compared to 282 000 the previous year), owing to the land redistribution process as it is almost exclusively grown on large-scale commercial farms which use irrigation systems. The country is therefore facing a serious food crisis with about half of the population in need of food assistance. The Grain Marketing Board

(GMB) can only meet a small fraction of the nation's food needs and grain is supplied irregularly. In April 2002, the President of Zimbabwe declared a national disaster in all communal lands, resettlement and urban areas and, in July 2002, the government established a Drought Relief Food Aid Program and allocated extra budgetary resources to import cereals and inputs. However, the government's ability to import cereals is extremely limited owing to the acute shortage of foreign currency. As at mid-2002, the cereal gap was about 1.8 million tonnes, while the anticipated cereal imports by the government accounted for 300 000 tonnes and food aid pledges of about 100 000 tonnes, following government's acceptance of genetically modified food.

The lack of foreign currency is exacerbated by the poor performance of the tobacco and cotton production exports, which represent the most important foreign exchange earners. Tobacco production declined by 15.4 per cent in 2000/01 owing to the land invasions and seizures of many commercial farms. The forecast for the next crop is bleak since investments have slumped owing to such an uncertain environment. Tobacco seeds sales have been very limited compared to last year and, consequently, land preparation for the next crop season has been very inadequate. Such cautious behaviour derives also from the difficulties in accessing credit to finance the next year's crop, as banks are reluctant to extend credit to farmers whose land has been occupied or "listed" for compulsory acquisition. Tobacco growers also continue to be adversely affected by the central bank's imposed marketing and financing rules. Despite the fact that the crop is the country's foreign exchange earner, growers are paid in local currency (at a highly overvalued exchange rate). All foreign currency related to tobacco sales at the auction floors is controlled by the central bank, with growers only allowed a marginal pooled foreign currency reserve of 20 per cent for importation of inputs. This fragile situation of the sector also stems from the poor Zimbabwe dollar prices received by producers, at the beginning of the year's auction (May 2002) owing to the conversion of the US auction floor price at the overvalued official exchange rate of US$1:Z$55. In order to support the depressed seasonal sale of tobacco, and to earn more currency for food imports, the government has then progressively devalued the dollar for the tobacco industry. Since July 2002, tobacco farmers have been granted a subsidy, being allowed to use an exchange rate of Z$159 for every dollar they earn on the tobacco auction floors. However, against a background of almost doubled production costs, such a measure still provides a tiny margin to tobacco producers.

The crisis in the mining sector, which began in 2000 deteriorated still further in 2001. Gold production – accounting for about half of the total value of the mining sector – declined by 18.2 per cent in 2001, to 18.04 tonnes from 22.07 tonnes recorded in 2000, as a result of the combined effect 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 of the imported inputs with a premium on the parallel exchange rate market. The viability problems, resulting from increased mismatch between the rising cost and the revenue, led companies to scale down operations and many have been forced to close. In order to avert further mine closures, the government introduced a gold price support scheme in April 2001, which has been revised upwards four times until March 2002, when it reached a floor price of US$531 per ounce, compared with the international price of US$296 per ounce. Against a background of high inflation and a continuing overvalued exchange rate, the extent of the assistance of the gold support scheme has however been very limited. The situation has been exacerbated by the slump in foreign investment due to the political environment. Production in 2002 is estimated to have declined by a further 22 per cent.

The tourism sector, the fastest growing sector during the 1990s, experienced a profound decline in 2000 owing to the country's deepening economic crisis and the perceived unstable political climate in the lead up to the March 2002 presidential elections. The decline continued in 2001 when activity dropped by 38 per cent, exacerbating the shortage of foreign reserves. This represents the worst consecutive decline experienced in the sector since independence. The current political situation is hampering the development of the sector and preliminary estimates for 2002 are projecting a further decrease in the tourism activity.

Real estate has recorded an estimated modest growth of 6.5 per cent in 2001, benefiting from the switching of investments from productive activities towards properties, leading to the emergence of artificial property market values. The sector has also been propped up by an upsurge in demand for properties by Zimbabwean citizens working abroad, remitting hard currency at parallel market exchange rates.

The financial sector, which accounts for about 9 per cent of GDP, is the other resilient sector in the economy, having experienced a real growth of about 2 per cent in 2001. The main reason for this growth, however, lies in the distortions created by the overvalued exchange rate and the opportunities of profit through dealing in foreign currency on the parallel market. In addition, banks are the major custodians of domestic debt of the government. Moreover, the low interest rate policies undertaken by the Central Bank have led to a dramatic surge in the stock market, unrelated to the economic fundamentals of the counters being traded. Whilst Zimbabwe has largely liberalised its balance-of-payments current account in line with the IMF Article VIII, the country's capital account still has residual controls where particularly outward investments by local residents have to be under Central Bank approval. This, coupled with foreign exchange shortages, has seen most institutional investors taking recourse on the Zimbabwe Stock Exchange (ZSE) as a hedge against the highly negative returns on the money market. Buoyancy of the ZSE contrasts sharply with the general slump in economic productivity, underscoring a pronounced stock market bubble.

However, the sector is beginning to show signs of recession, stemming from the contagious effect of the drowning productive sector. The effect of the land reform crisis is posing major challenges, both in terms of non-performing loans arising from the commercial farms evicted and the risky lending to the newly resettled farmers that may be imposed by the government. Moreover, the increased government control on the foreign exchange market may contract the profits that banks make on trading on the parallel market.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**24.5**	**15.1**	**14.0**	**0.4**	**1.8**	**2.5**
Public	4.6	1.9	1.6	2.4	3.1	3.2
Private	19.9	13.2	12.4	-2.0	-1.3	-0.7
Consumption	**78.2**	**85.4**	**87.2**	**100.8**	**99.5**	**98.8**
Public	17.8	15.4	24.8	33.8	33.0	34.0
Private	60.4	70.0	62.4	67.0	66.5	64.8
External demand	**-2.7**	**-0.4**	**-1.2**	**-1.2**	**-1.3**	**-1.4**
Exports	37.8	46.8	30.3	23.3	9.4	4.0
Imports	-40.4	-47.2	-31.6	-24.6	-10.7	-5.3

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

The recent crisis has changed the demand structure. From 2001 onwards, gross capital formation has declined substantially, as a result of the macroeconomic imbalance and the economic disruption that involved farming activities. In particular, private gross capital formation has been negative since 2001, reflecting the farming equipment that has been destroyed following the farm invasions and the transfer of properties carried out under the land reform process. Since 2002, consumption patterns have deteriorated mirroring the increasing inflation, while the budgeted increase in public spending has been severely constrained by the shortage of foreign currency.

External demand has changed severely as well. Already weak exports have faced an erratic exchange-rate policy while foreign currency shortages have crippled the level of imports. Consequently, imports are estimated to have fallen from 47.2 per cent of GDP in 1999 to 10.7 per cent in 2002 as exports were cut to 9.4 per cent (compared to 46.8 per cent in 1999). The export and imports pattern is expected to contract even further in 2003, against the background of worsening exchange rate overvaluation and acute foreign exchange shortages.

Macroeconomic Policy

Fiscal and Monetary Policy

The country's fiscal situation over the last decade has been characterised by a high and persistent budget deficit, averaging around 8 per cent of GDP. The overall budget deficit (including grants) rose to about -21 per cent of GDP in 2000, mainly on account of large, unbudgeted increases in civil service wages in the run up to the parliamentary elections in June 2000.

Sustained inflation, an overvalued exchange rate, almost no access to external financing and the skyrocketing deficit have changed the structure of public debt. External public debt represented 41 per cent of total public debt in 2000 (38 per cent in 2001) from a share of 78 per cent just two years before. The share of domestic public debt has increased accordingly and, in 2000, interest payments on domestic public debt have absorbed almost 60 per cent of total revenues. In 2001, the government managed to reduce pressure on servicing of government domestic debt though a debt rescheduling policy, switching from under six-month Treasury bills (T-bills) to longer-term T-bills at lower interest rates. Indeed, as at the end of 2001, the share of short-term debt declined to 67 per cent compared to 94 per cent at the end of 2000 and, as examined later in the monetary section, the average effective yields on T-bills slumped from 65-70 per cent in 2000 to 11-27 per cent in 2001. This huge shift gave respite to the *fiscus*. As a result of this policy, and below-target expenditure owing to foreign currency shortages, the fiscal deficit was 8.1 per cent of GDP in 2001, compared to the original target of 15.5 per cent (interest payments in 2001 accounted for about 30 per cent of total revenue).

The 2002 budget approved in November 2001, targeted a deficit before grants of 14.9 per cent of GDP suggesting significant domestic borrowing financed through a further increase of the proportion of medium- and long-term debt to at least 40 per cent. Total government expenditures were targeted to increase from about 35 per cent to 42 per cent of GDP, on account of increased allocations for land reforms and the wage bill, while revenue was targeted to increase by 3 per cent of GDP thanks to the full operation of the Zimbabwe Revenue Authority. However such a projection was based on the authorities' estimation that GDP was contracting by only 5.2 per cent GDP. The whole exercise is blurred by the fact that the GDP forecast made by the government is very uncertain. Nevertheless, as at mid-2002, despite a prolonged

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Total revenue and grants[a]	**28.2**	**29.2**	**28.1**	**26.6**	**26.7**	**27.6**
Tax revenue	23.4	26.7	25.4	24.6	25.1	26.0
Total expenditure and net lending[a]	**44.6**	**38.7**	**48.8**	**34.7**	**35.9**	**37.0**
Current expenditure	39.1	34.7	46.0	32.2	32.4	33.6
Excluding interests	*29.9*	*24.4*	*29.0*	*24.3*	*27.7*	*28.4*
Wages and salaries	11.1	13.5	16.9	13.4	13.2	13.7
Interest	9.3	10.3	17.1	7.9	4.7	5.2
Capital expenditure	2.9	2.8	1.8	2.5	3.1	3.3
Primary balance	**-7.2**	**0.9**	**-3.6**	**-0.2**	**-4.5**	**-4.3**
Overall balance	**-16.4**	**-9.5**	**-20.7**	**-8.1**	**-9.2**	**-9.5**

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

contraction in export duties, revenue performance improved by about 16 per cent (the revenue collected was Z$115 billion against a target of Z$99.5)[1] on the corporate and individual tax lines, as a result of the enhanced revenue collection efforts by the Revenue Authority and of price rises. Meanwhile, expenditures were below anticipated levels (being about 142 against a target of $191 billion, by about 25 per cent)[2] owing to shortages of commodities and foreign currency in the economy. In addition, the low interest rate environment prevailing in the market enabled the government to make savings on interest on domestic debt payments by 51 per cent as at June 2002. In response to the acute food shortages following the 2001/02 drought, a supplementary budget was approved in July 2002 in order to finance the need for food imports. Additional funds were also allocated to support resettled farmers and to adjust the cost of living of public employees. Despite these additional expenses, the 2002 deficit is expected to be lower than targeted owing to the combined impact of lower interest rates and shortage of foreign currency.

Since January 1999, monetary developments have been influenced by the government's rising borrowing requirements. Indeed, government borrowings have mainly been through Treasury bills and the Reserve Bank of Zimbabwe (RBZ) overdraft facility. Financing of the budget deficit from the banking sector fuelled annual money supply growth, which rose from 56.9 per cent in January 2001 to 102.7 per cent by the end of the year. Recent figures by the RBZ show that yearly growth in M3 rose significantly from 99.5 per cent in January 2002 to 124 per cent in September 2002. Such expansion in M3, at a time when production of goods and services was shrinking, caused inflation to rise from 103.8 per cent in November 2001, to an all time high of 175.5 per cent in November 2002.

Through the enforcement of the 45 per cent statutory requirement for the holding of long-term government paper by institutional investors – such as insurance companies, pension 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 27 per cent at the end of the year (having reached a minimum of 11.4 per cent in April 2001). Furthermore, the RBZ released statutory reserves to commercial and merchant banks, for on lending at concessional rates of 30 per cent to productive and 15 per cent to export sectors. In October 2002, the rates were reduced to 15 and 5 per cent for the productive and export sectors, respectively. Commercial lending and deposit rates averaged 32.5 per cent and 17.6 per cent respectively in the first half of 2002. Against the background of a 116 per cent average inflation in the first half of 2002, the sharply negative real interest rates have adversely impacted on the ability of pension funds, insurance companies and deposit-taking institutions to reward investors and savers, respectively. In addition, investors are switching from investing in productive activities towards consumptive and speculative borrowing, such as foreign currency trading, shares and real estate causing a sharp rise in these asset prices. In order to support the government's debt policy, the RBZ is expected to maintain its current monetary policy for as long as possible.

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, had been introduced. Despite having depreciated by 31 per cent *vis-à-vis* the US dollar by the end of 2000, the Zimbabwe dollar remained above its market-clearing value, pegged at Z$55 to US$1. Pegging the exchange rate at this level against a background of high inflation *vis-à-vis* that of major trading partners had serious repercussions on export competitiveness, foreign currency availability in the economy and overall economic performance. Moreover, the monetary policy of artificially lowering

1. Equivalent to US$2 billion and US$1.8 billion, respectively, at the official exchange rate of Z$55:US$1.

2. Equivalent to US$2.8 billion and US$ 3.5 billion, respectively, at the official exchange rate of Z$55:US$1.

interest rates introduced in 2001 added pressures to 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 towards the end of 2000, to a 635 per cent premium in December 2001, the US dollar being exchanged above 400 Zimbabwe dollars. Having stood at around Z$320 to the US dollar just before the presidential elections, the parallel rate depreciated to Z$850 towards the end of June 2002, reflecting the renewed surge in demand for foreign currency owing to the general loss of confidence by the business community. However, following increased control on commercial banks and *bureaux de change* alleged to be involved in parallel market activities, the local currency has firmed to around Z$680 per US$1 in July 2002. This represents a premium of 1136 per cent on the official exchange rate, leaving room for significant arbitrage opportunities for speculators which in turn is fuelling the parallel market. Despite this worrying scenario, the current exchange rate is expected to be maintained for the year 2003, owing to strong political resistance to devaluation, witnessed also by the cabinet reshuffle of August 2002. Indeed, the former Finance Minister, Simba Makoni, the only proponent of devaluation, was replaced by his predecessor, Herbert Murewa, supporter of the current currency peg.

As mentioned earlier, the years 2001 and 2002 experienced a dramatic upsurge in inflation, resulting from a combination of demand pull and cost push pressures. On one side, the high level of liquidity in a contracting economy created speculative tendencies in the market pushing up prices of equity and property markets. Another determinant of inflationary pressure was the continued shortage of foreign currency, which forced producers to source foreign currency on the parallel market at high rates, at a cost subsequently passed to consumers. In addition, inflationary expectations driven by the macroeconomic instability became self-fulfilling, as economic agents increased prices in anticipation of price increases in other critical inputs, such as labour and raw material. In order to contain inflation, the government introduced direct controls on selected prices. The Grain Marketing Board was re-established as a monopoly in June 2001 to control the pricing and distribution of maize and wheat and, since October 2001, controls on the wholesale and retail prices of other basic commodities have been introduced. Such intervention did not produce the expected effects since the price controls led to shortages of some of the controlled goods, which in turn fuelled black market activities, resulting in scarce commodities sold at very high prices.

Inflation for 2002 is estimated to have averaged 129 per cent and is projected to remain at three-digit level in 2003, as fiscal and monetary policy will be unchanged for most of the period under review.

External Position

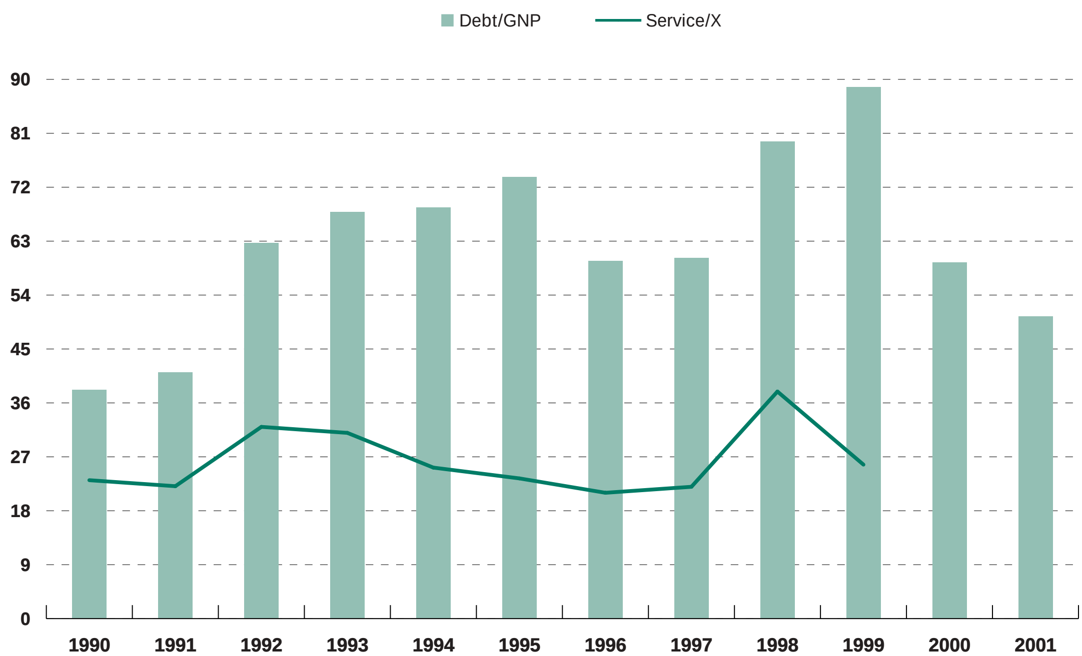
Despite major efforts pursued in the last ten years to liberalise trade, Zimbabwe is still characterised by a restrictive trade regime, particularly on the capital account. The foreign exchange allocation system, relaxed at the beginning of the decade, has recently been restored in the form of stringent foreign exchange controls as a measure to regulate the growth of imports. A system of permits and monopolies for some exports is still active: as alluded earlier, the Grain Marketing Board has the monopoly for maize exports and gold is exported only by the RBZ. The Minerals Marketing Council of Zimbabwe (MMCZ) controls the bulk of Zimbabwe's mineral exporting. During 2001, several measures were introduced in order to mitigate the loss of competitiveness and curb parallel market activity. In particular, the RBZ increased the import surrender requirement to 40 per cent for exporters which imposes the repatriation of export receipts through the official market. Given the wide spread between the official and the parallel market exchange rate, the 40 per cent surrender requirement is an effective tax on exporters. In March 2001, the authorities raised the effective level of protection by increasing tariff rates on certain processed items that have domestically produced substitutes, such as food, and reducing rates on some raw material and capital goods, mostly machinery. However, in mid-2002, in order to reduce the cost of

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Trade balance	1.2	4.6	3.7	0.8	-0.1	-0.6
Exports of goods (f.o.b.)	30.8	35.5	24.5	17.9	7.4	3.2
Imports of goods (f.o.b.)	-29.6	-30.9	-20.8	-17.1	-7.5	-3.7
Services	-3.5	0.4	-1.5	-2.1		
Factor income	-4.5	-6.6	-5.3	-2.6		
Current transfers	1.7	2.1	1.7	1.3		
Balance on current account	**-5.1**	**0.5**	**-1.4**	**-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.

maize to alleviate the sufferings caused by the drought, duty on maize and wheat imports have been suspended.

The country's external position has seriously deteriorated since 2000, reflecting the combined impact of the freeze on foreign assistance and declining exports. High inflation, against a fixed exchange rate, compromised competitiveness and caused a contraction in exports by 6.6 per cent in 2001. More specifically, the shortage of foreign currency forced companies to use the parallel market to procure raw materials, chemicals, machinery and equipment as well as fuel and electricity. Such increases in production costs had a negative impact on the already weak mining and manufacturing sectors. In the wake of the current political instability, tourism receipts fell sharply in 2001 with a negative impact on the services account which passed from a surplus of US$21 million in1999 to a deficit of US$198 million. As a result, the current account has registered a deficit of 2.7 per cent as a percentage of GDP. Export and imports are estimated to have further contracted in 2002 and 2003.

Agriculture, manufacturing, and mining exports are estimated to have declined even further in 2002. Foreign exchange shortage and the lack of access to most lines of credit continued to limit severely the country's ability to import. Food imports, necessary to compensate the decrease in staple food production, constituted about 19 per cent of total imports in 2002, reducing resources available for other critical imports such as raw material, fuel and capital goods.

The negative developments on the current account are exacerbated by the deterioration of the capital account, recorded since 2000. Long- and short-term capital inflows as well as foreign investments have declined substantially in response to the unfavourable macroeconomic and socio-political environment and the consequent increased loss of confidence of the business community. Another determinant of the deterioration in the capital account has been the continued withdrawal of donor funding.

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 since1997, reflecting the cutback in aid inflow and lending by multilaterals, the country's offshore obligations have risen sharply with the build-up of foreign arrears. The stock of total external debt – excluding arrears – declined to 50.4 per cent of GNP in 2001 after the steep increase registered in 1999 (where it amounted to 88.7 per cent of GNP). In terms of structure, external debt, being around 70 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 experienced over the last two years have made debt repayments increasingly difficult and, by mid-1999, the government had defaulted on most of its external debt commitments. Foreign arrears have build up dramatically from US$197.5 million in 2000 to US$762.7 million in 2001. In mid-2002, external payments arrears stood at around US$1.1 billion, of which more than 450 million was owed to the multilateral creditors. In June 2002, in response to the accumulation of arrears (of more than US$132 million) the IMF suspended the provision of technical assistance.

Structural Issues

With quite a diversified economy compared to other African countries, Zimbabwe has been, 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 throughout 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 which started in 1991, the Privatisation Agency of Zimbabwe (PAZ) was not established until September 1999. The Agency is to date not backed by any legislation but the authority of the PAZ derives directly from the Cabinet. Indeed, it is a semi-autonomous institution, housed in the Office of the President and Cabinet (OPC) with its Director reporting to the Cabinet through the Chief Secretary. The stated key objectives of the privatisation programme were to eliminate the large budgetary burden of public enterprises and to promote economic local empowerment through the ownership of assets. The larger state-owned enterprises (SOEs) (about 10 out of a total of 45) are related to public utilities in the energy sector (both in production and distribution), air and railway transport, and other strategic sectors such as telecommunications, industrial development, financial services and the banking sector. As of 2002, the privatisation process still lacked an overarching regulatory policy framework, although the PAZ has released a privatisation manual which sets up the procedures of the process. The manual, though, provides general guidelines and remains subordinated to the Companies Act and other specific sector legislation. The process is therefore conducted on a case-by-case basis, with sectors adopting different approaches in developing regulatory authorities. Privatisation has been implemented starting from a fast-track divestiture of firms already listed on the stock exchange. In 2001, seven out of the 12 companies listed were divested. These include: the Cotton Company of Zimbabwe (Cottco), the Zimbabwe Reinsurance Company (ZimRE), and the Zimbabwe Development Corporation (ZDC). At a second stage, several other public utilities will be divested (the national airlines and national railways are envisaged as the first priorities); then parastatals which have some social functions (such as universities and colleges) are also set for eventual privatisation.

Over the past decade, the whole privatisation process has been slow and, owing to the nature of its authority, the PZA seems to have been marginalised by political interference in the allocation of the SOEs. Proceeds from privatisation in 2001 were only 32 per cent of the target, amounting to Z$7.1 billion, compared to a target of Z$22 billion. According to the 2002 budget, the proceeds by year-end were targeted at Z$40.9 billion. However, as at November 2002, these amounted to only Z$10.2 million.

The process faces many challenges associated with the current macroeconomic environment. In particular, foreign participation in the privatisation process is hampered by the deteriorating political and economic situation and by the exchange policy, which makes valuations extremely high in US dollars at the official exchange rate. Moreover, before the privatisation of public utilities can actually be implemented, it is necessary to put in place a comprehensive and consistent privatisation law.

The highly unequal distribution of land has always threatened social cohesion since the inception of independent Zimbabwe and, since June 2000, agrarian reform has become the government's highest priority. In order to understand better the land crisis in Zimbabwe, it is worth considering the different phases of the land redistribution process. Since1980, when the country attained political independence, and before the massive redistribution that took place in 2001 and 2002, the distribution of land was highly skewed. Some 4 500 large-scale commercial farms were owned largely 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 then, were 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 was 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 (1980-84) of fast resettlement, the process started to slow down beginning 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 to 3.5 million ha and 73 000 families resettled with the new principle of compensation for capital improvement and not for the value of the land. Aside from the official process, there have also been informal farm invasions which have occurred regardless of the legal status of those farms under the land reform programme. Despite the Abuja agreement, signed in September 2001 by the Commonwealth Ministries, which provided for the withdrawal of settlers from unlisted – or illegally listed – farms, as well as a return to the rule of law and a peaceful and smooth transition, the occupation and disruption of farms has continued. Since the March 2002 election, the government has accelerated the land redistribution process and extended the parameters of the programme. In particular, the Land Acquisition Act was amended in May 2002 granting the government full rights on land listed for acquisition.

Moreover, the amended Act required farmers, whose properties had been listed, to cease all operations and to leave the property within three months. The Act also poses the basis of an Agriculture, Technical and Extension Service Scheme, earmarked to support the development of irrigation and agro-mechanisation and training of the newly resettled farmers. According to official figures, as at July 2002, the government had "gazetted" for acquisition and resettlement 5 153 farms with a total area of 9.8 million hectares. Of this land, 6.2 million hectares had been allocated to about 210 000 households for small subsistence farming (3 to 6 hectares) and 3.6 million hectares have been assigned to 54 600 new commercial farmers (from 50 to 300 hectares). As far as the number of farms listed is concerned, the Commercial Farmers' Union (CFU) presents slightly different data. According to it, from the beginning of the fast-track reform in July 2000, a total of 5 909 commercial farms (10.5 million hectares) out of 6 032 (10.6 million hectares) have been listed for compulsory acquisition. Out of the farms under notice, about 51 per cent were issued with eviction orders, requiring the farmers to cease all operations and leave the farms within three months[3]. Twenty-seven per cent of all operating farms had been closed, but operations on the remainder were either wholly or partially in place. The land reform process has failed to address the plight of 350 000 farm workers and estimated 200 000 to 300 000 casual labourers, whose jobs are threatened by the eviction of white farmers. Only 2 per cent of farm labourers are estimated to have been allocated land under the fast-track reform and most of them have not been re-employed by the resettled farmers. Against a background of increasing politicisation of the land issue, the likely prospects for next year are sizeable output losses and unemployment of agriculture workers. Indeed, as seen earlier, wheat and tobacco crops are threatened by the uncertainty surrounding the land issue since the remaining white farmers face enormous difficulties in getting finance for the next crop owing to the difficulties in using land and machinery as collateral. On the other hand, most resettled farmers lack the capacity, the infrastructure and the back-up service from financial institutions. The problem of funding the next crop is therefore crucial. The main challenge for the government will be to assist newly resettled farmers to operate viably through the provision of fertiliser, seeds, irrigation infrastructure and credit. In order to reach these goals, the government has earmarked Z$8.5 billion and it is likely that commercial banks will be roped in to support the agricultural sector. Beginning the last quarter of 2002, commercial banks had already started floating agro-bills on the back of Government guarantees for working capital financing of the new farmers. Official indications have been that between November 2002 and April 2003, sale of these agro-bills and agro-bonds would raise a targeted Z$60 billion[4].

Political and Social Context

After a political campaign marked by violence, Robert Mugabe was re-elected to the presidency of the country at the disputed election in March 2002. Condemned as not free and fair, the result was contested by the opposition and the international community. The country has been suspended from the Commonwealth and smart sanctions have been imposed by the United States and the European Union. Despite the isolation into which the country has been plunged, and the efforts of Presidents Mbeki and Obasanjo to broker negotiations between the ruling party (the Zimbabwe African National Union Patriotic Front – ZANU PF) and the opposition (Movement for Democratic Change – MDC), the political impasse has not been solved. The MDC candidate, Morgan Tsvangirai, stated that he would only participate in an interim government if it led to fresh elections, while Mugabe is unlikely to leave office voluntarily. Since the

3. The deadline for 2900 farms expired on 10 August 2002, however most of the farmers have defied the order and many have charges laid against them by the police. A new law adopted in September forces farmers to leave their land within a week of being served eviction notices rather than the 90-day deadline previously in place.

4. Agro-bills are for short-term working capital finance, whilst agro-bonds are meant to finance infrastructure development, with planned maturities of 3-5 years.

election, the government has accelerated the controversial fast-track reform and has suppressed forms of opposition in the independent press, labour movement and political parties. Discontent is increasing among the people as it has been since 2000. Support for Mugabe has started to wane since 2000 owing to the negative impact of the 1990s reforms on people's living standards and to rising corruption amongst political leaders. The MDC was therefore formed to represent this discontent and since the national election held in June 2000 (where the MDC won 57 out of the 120 contested seats), Mugabe and the ZANU-PF have been confronted by an organised and strong political opposition.

Since the presidential election of March 2002, however, the MDC seems to have adopted a wait-and-see attitude and is now focusing on local elections, after an MDC candidate was elected mayor of the capital. In the meantime, Mr Tsvangirai faces a legal challenge as the government presses treason charges against him.

The current food crisis, the deepening economic crisis and the disordered land redistribution process are exacerbating the people's discontent, while donors' concerns over political interference in the distribution of food has slowed down the food aid operations.

Against this background, large-scale protests against the government, although announced by the opposition, are unlikely to take place. Moreover, under new security laws, it is illegal to call for a general strike and such mass action would probably be suppressed by the government army and war veterans. Presidents Mbeki and Obasanjo are expected to insist on finding a conciliatory path to resolve the political crisis and to re-establish relations with international donors. What drives the attempts of the South African and Nigerian leaders to find a solution is the concern that lack of progress in their intermediation would compromise US and EU financial support to their ambitious NEPAD (New Partnership for African Development) initiative which foresees a peer review mechanism on governance issues. Zimbabwe is widely seen as the first test of this procedure. The most likely scenario would be that President Mugabe remains in power for the period of his mandate but will soon identify his successor.

International relations over recent years have been characterised by Zimbabwe's military involvement in the Democratic Republic of Congo (DRC) war. Zimbabwe has been fighting in the DRC since 1998, in support of President Kabila and, by mid-2001, an estimated 12 000 troops had been sent there. Zimbabwe had, however, started withdrawing its troops from the DRC at the beginning of September 2002, following peace deals signed separately between the DRC and Rwanda and Uganda during the third quarter of 2002.

A key factor that will continue to chart the socio-economic evolution of Zimbabwe is the worsening income distribution. The country has, over the past few years seen 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 subsequent shrinkage of national resources available for social services are hampering the sustainability of the highly developed health care and education systems that had placed Zimbabwe at the forefront of the continent ten years after independence. Coupled with this, the spread of HIV/AIDS amongst the population is fast erasing the gains in life expectancy achieved in the last twenty years and the high prevalence of HIV/AIDS amongst the population is also directly disorganising the health care system.

Inequalities between rural and urban areas are still large. According to a recent 1995/96 World Bank study, the poverty incidence was equal to 48 per cent in rural areas compared to a level of 7.9 per cent in 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 over the last five years. The 1995-2001 average GDP growth of 0.1 per cent is far below the 4.7 per cent per year required to prevent the increase of the total number of the extremely poor segment of society. The situation deteriorated further in 2002 owing to the combined effects of the general economic difficulties, the strain in relations with donor groups and the massive drought. As mentioned earlier, over 6 million people are at risk due to the worsening food shortage in the country.

According to a joint health assessment carried out by the Ministry of Health and the World Health Organisation in May 2002, the large-scale movement of people under the current humanitarian crisis has resulted in those populations not accessing health services including safe water supplies and adequate sanitation. Consequently, it is estimated that 1 million people are vulnerable to disease outbreaks. Since 2000, economic hardships have resulted in a brain drain to other countries, health services are becoming increasingly difficult to access and basic drugs are in short supply. One hundred and fifty thousand children are estimated to be in desperate need of protection services and 600 000 require targeted nutrition initiatives. The worsening food crisis is acting as a multiplier on previously existing problems such as chronic malnutrition and HIV/AIDS.

With an estimated 28 per cent of the adult population living with HIV/AIDS, Zimbabwe is one of the most infected populations in the world**,** overtaken only by Botswana and Swaziland. UNAIDS estimates that about 2.2 million people are living with HIV/AIDS. The mortality rate for HIV/AIDS has increased from 18.29 per thousand in 1998 to 34.14 in 2001. However, those figures are expected to increase following the 2002 food crisis that exacerbated the vulnerability to infections and exposed people already living with HIV/AIDS to secondary infections as their resistance declined due to poor nutrition. The epidemic is concentrated on major highways and with the current food insecurity and the consequent increase of high risk behaviours such as prostitution or migration, the risk of contagion rises dramatically. Another serious effect of HIV/AIDS has been the number of orphans. The number of living orphans is about 600 000. The estimated 1.2 million orphans by 2010 (almost 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 have been introduced in 2000. In 2001, the Parliament instituted an AIDS Council, which is mandated to implement the national strategy against HIV/AIDS, and to disburse the funds to the districts AIDS Committees. So far, the lack of a clear agenda has prevented the implementation of an effective strategy, and mismanagement and lack of capacity at the district level have prevented the effective utilisation of the funds.

By developing country standards, the education system has, however, made tremendous progress since independence and now Zimbabwe boasts of a well-educated population. The most dramatic achievements in providing education were made in the first decade of independence, 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. As a result of this dramatic progress, primary education is free and universal and more than half of the 15-19 age group was enrolled in secondary schools in 1999. The adult literacy rate has increased accordingly passing from 70 per cent in 1980 to 88 per cent in 1999 (ADB Statistics). Nevertheless, current political and economic difficulties, HIV/AIDS, population displacement and resettlement have slowed down the progress. Dropouts, especially in the 15-19 year age group are increasing. It is estimated that over 200 000 children will be affected by the resettlement process.

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, Kenya, Mauritius, Tanzania, and Uganda are from July to June in the reference year. For South Africa, fiscal year 2001 is from April 2001 to March 2002.

Table 7: Exports, 2000

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 (1996-2000) (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, S., D. Lafay and C. Morrisson (1994): “A Politico-economic Model for Stabilisation in Africa”, *Journal of African Economies*.

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 Political troubles, a measure of the softening of the political regime and one of its hardening.

Table 21: Political troubles

- **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 strikers lower than 5 000 (non inclusive),
2 = 2 demonstrations or number of strikers between 5 000 and 10 000 (non inclusive),
3 = 3 demonstrations or number of strikers higher than 10 000.

- **Coup d'état and attempted coup 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**

Table 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.

Weights in "Political troubles"

	Weights
Strike	0.286
Dead	0.950
Injured	0.958
Demonstration	0.543
Coups d'état and attempts	0.059

Weights in "Softening of the political regime"

	Weights
Lifting of state of emergency	0.282
Release of political prisoners	0.709
Measures in favour of human rights	0.373
Improvement of political governance	0.089
Relinquishment of political persecution	0.502
Political opening	0.373
Lifting of bans on strikes	0.323
Lifting of bans on public debates	0.522

Weights in "hardening of the political regime"

	Weights
State of emergency	0.631
Violence perpetuated by the police: Dead	0.261
Injured	0.423
Arrests	0.402
Additional resources for the police	0.603
Toughening of the political environment	0.253
Prosecutions, executions	0.583
Bans on strikes	0.383
Bans on demonstrations	0.292
Closing of schools	0.092

Table 1 - Basic Indicators, 2001

	Population (thousands)	Land area (thousands of km²)	Population Density (pop / km²)	Gross Domestic Product (Current price, $ Million)	GDP per Capita (Current price, $)	Annual real GDP growth (average over 1995-2001)
Algeria	**30 841**	**2 382**	**12. 9**	**54 700**	**1 774**	**3.1**
Angola	13 527	1 247	10.9	9 472	700	6.5
Benin	6 446	113	57.2	2 385	370	5.1
Botswana	**1 554**	**582**	**2.7**	**5 791**	**3 726**	**6.2**
Burkina Faso	**11 856**	**274**	**43.3**	**2 488**	**210**	**4.9**
Burundi	6 502	28	233.6	653	100	-1.4
Cameroon	**15 203**	**475**	**32.0**	**8 753**	**576**	**4.6**
Cape Verde	437	4	108.2	557	1 276	6.8
Central Afr. Rep.	3 782	623	6.1	968	256	2.1
Chad	8 135	1 284	6.3	1 602	197	3.8
Comoros	727	2	325.3	220	303	2.2
Congo	3 110	342	9.1	2 751	884	2.7
Congo Dem. Rep.	52 522	2 345	22.4	4 480	85	-3.2
Côte d'Ivoire	**16 349**	**322**	**50.7**	**10 744**	**657**	**3.4**
Djibouti	644	23	27.7	568	883	-0.7
Egypt	**69 080**	**1 001**	**69.0**	**98 488**	**1 426**	**5.0**
Equatorial Guinea	470	28	16.7	1 745	3 716	33.0
Eritrea	3 816	118	32.4	689	181	2.7
Ethiopia	**64 459**	**1 104**	**58.4**	**6 240**	**97**	**5.6**
Gabon	**1 262**	**268**	**4.7**	**4 688**	**3 716**	**1.1**
Gambia	1 337	11	118.4	408	305	4.0
Ghana	**19 734**	**239**	**82.7**	**5 383**	**273**	**4.3**
Guinea	8 274	246	33.7	2 989	361	4.3
Guinea Bissau	1 227	36	34.0	200	163	-0.3
Kenya	**31 293**	**580**	**53.9**	**11 396**	**364**	**2.2**
Lesotho	2 057	30	67.8	741	360	4.7
Liberia	3 108	111	27.9	…	…	2.7
Libya	5 408	1 760	3.1	28 605	5 290	1.4
Madagascar	16 437	587	28.0	4 628	282	3.9
Malawi	11 572	118	97.7	1 749	151	4.9
Mali	**11 677**	**1 240**	**9.4**	**2 631**	**225**	**5.0**

Table 1 - Basic Indicators, 2001 *(cont.)*

	Population (thousands)	Land area (thousands of km²)	Population Density (pop / km²)	Gross Domestic Product (Current price, $ Million)	GDP per Capita (Current price, $)	Annual real GDP growth (average over 1995-2001)
Mauritania	2 747	1 026	2.7	966	352	4.4
Mauritius	**1 171**	**2**	**573.9**	**4 526**	**3 866**	**5.4**
Morocco	**30 430**	**447**	**68.1**	**34 338**	**1 128**	**2.3**
Mozambique	**18 644**	**802**	**23.3**	**3 607**	**193**	**8.2**
Namibia	1 788	824	2.2	3 165	1 770	3.4
Niger	11 227	1 267	8.9	1 955	174	3.5
Nigeria	**116 929**	**924**	**126.6**	**42 337**	**362**	**3.1**
Rwanda	7 949	26	301.8	1 703	214	12.6
São Tomé and Principe	140	1	145.4	49	350	2.4
Senegal	**9 662**	**197**	**49.1**	**4 614**	**478**	**5.3**
Seychelles	81	0	179.0	570	6 998	1.5
Sierra Leone	4 587	72	63.9	716	156	-8.0
Somalia	9 157	638	14.4	...	...	5.4
South Africa	**43 792**	**1 221**	**35.9**	**113 274**	**2 587**	**2.6**
Sudan	31 809	2 506	12.7	12 513	393	6.6
Swaziland	938	17	54.0	1 248	1 331	3.1
Tanzania	**35 965**	**945**	**38.1**	**9 341**	**260**	**4.3**
Togo	4 657	57	82.0	1 259	270	3.1
Tunisia	**9 562**	**164**	**58.4**	**20 073**	**2 099**	**5.1**
Uganda	**24 023**	**241**	**99.7**	**5 716**	**238**	**6.9**
Zambia	**10 649**	**753**	**14.1**	**3 612**	**339**	**2.3**
Zimbabwe	**12 852**	**391**	**32.9**	**4 771**	**371**	**0.1**
AEO countries	**586 987**	**14 553**	**40.3**	**457 509**	**779**	**3.6**
Africa	**811 605**	**30 043**	**27.0**	**547 063**	**684**	**3.5**

Sources: Population; United Nations, Population Division, 2001, World Population Prospects, The 2001 Revision, Highlights.
Land area: African Development Indicators, 2002 World Bank
GDP: Various domestic authorities and IMF World Economic Outlook (September 2002).

Table 2 - Real GDP Growth Rates, 1995-2003

	1995	1996	1997	1998	1999	2000	2001	2002 (e)	2003 (p)
Algeria	**3.8**	**3.8**	**1.1**	**5.1**	**3.3**	**2.4**	**2.1**	**2.5**	**3.2**
Angola	10.4	11.2	7.9	6.8	3.3	3.0	3.2		
Benin	4.6	5.5	5.7	4.6	4.7	5.8	5.0		
Botswana*	**3.2**	**5.5**	**5.6**	**8.1**	**4.1**	**8.1**	**9.2**	**5.1**	**6.1**
Burkina Faso	**4.0**	**6.0**	**4.8**	**6.2**	**5.8**	**2.2**	**5.8**	**6.0**	**3.3**
Burundi	-7.3	-8.4	0.4	4.8	-1.0	-0.1	2.4		
Cameroon*	**3.1**	**5.0**	**5.1**	**5.0**	**4.4**	**4.2**	**5.3**	**4.4**	**5.5**
Cape Verde	7.5	6.7	7.6	7.4	8.6	6.8	2.9		
Central Afr. Rep.	5.2	-7.5	7.7	3.9	3.6	1.8	1.0		
Chad	0.4	3.1	4.2	7.7	2.3	1.0	8.5		
Comoros	8.9	-1.3	4.2	1.2	1.9	-1.1	1.9		
Congo	4.0	4.3	-0.6	3.7	-3.0	8.2	2.9		
Congo Dem. Rep.	0.7	-1.0	-5.6	-1.6	-4.3	-6.2	-4.4		
Côte d'Ivoire	**7.1**	**6.9**	**5.6**	**5.4**	**1.6**	**-2.3**	**0.1**	**1.0**	**-4.3**
Djibouti	-3.5	-5.0	-0.7	0.1	2.2	0.7	1.9		
Egypt*	**4.7**	**5.0**	**5.3**	**5.6**	**6.0**	**5.1**	**3.3**	**2.2**	**2.3**
Equatorial Guinea	14.3	29.1	71.2	22.0	41.4	16.1	45.5		
Eritrea	2.5	9.2	8.0	3.1	0.6	-12.1	9.7		
Ethiopia*	**6.2**	**10.6**	**5.2**	**-1.2**	**6.0**	**5.4**	**7.7**	**5.0**	**6.1**
Gabon	**5.0**	**3.6**	**5.7**	**3.5**	**-8.9**	**-1.9**	**1.6**	**1.0**	**-2.2**
Gambia	-3.4	6.1	4.9	3.5	6.4	5.6	5.5		
Ghana	**4.0**	**4.6**	**4.2**	**4.7**	**4.4**	**3.7**	**4.2**	**4.4**	**5.2**
Guinea	4.7	5.1	5.0	4.8	4.6	2.1	3.6		
Guinea Bissau	4.4	4.6	5.5	-28.1	8.0	9.5	0.2		
Kenya	**4.4**	**4.6**	**2.4**	**1.8**	**1.4**	**-0.3**	**1.2**	**1.6**	**2.8**
Lesotho	12.6	9.5	4.8	-3.0	2.4	3.5	4.0		
Liberia	2.7	2.7	2.7	2.7	2.7	2.7	2.7		
Libya	-0.3	3.3	5.2	-3.6	0.7	4.4	0.6		
Madagascar	1.7	2.1	3.7	3.9	4.7	4.8	6.7		
Malawi	16.7	7.3	3.8	3.3	4.0	1.7	-1.5		
Mali	**7.0**	**4.3**	**6.7**	**5.0**	**6.6**	**3.7**	**1.5**	**9.9**	**2.1**

Table 2 - Real GDP Growth Rates, 1995-2003 *(cont.)*

	1995	1996	1997	1998	1999	2000	2001	2002 (e)	2003 (p)
Mauritania	4.6	5.5	3.2	3.7	4.1	5.0	4.6		
Mauritius	**4.5**	**5.6**	**5.7**	**6.0**	**2.8**	**8.2**	**5.4**	**3.6**	**4.1**
Morocco	**-6.6**	**12.2**	**-2.2**	**6.8**	**-0.1**	**1.0**	**6.5**	**4.2**	**4.0**
Mozambique	**4.3**	**7.1**	**11.1**	**11.9**	**7.3**	**2.1**	**13.9**	**10.5**	**9.5**
Namibia	4.2	3.0	4.2	3.4	3.6	3.4	2.5		
Niger	2.6	3.4	2.8	10.4	-0.6	-1.4	7.6		
Nigeria	**2.6**	**6.4**	**3.1**	**1.9**	**1.1**	**3.8**	**2.8**	**-1.3**	**3.1**
Rwanda	35.2	12.7	13.8	8.9	7.6	6.0	6.7		
São Tomé and Principe	2.0	1.5	1.0	2.5	2.5	3.0	4.0		
Senegal	**5.2**	**5.1**	**5.0**	**5.7**	**5.0**	**5.6**	**5.6**	**4.8**	**4.1**
Seychelles	0.5	10.0	12.2	5.7	-2.8	-5.4	-8.1		
Sierra Leone	-10.0	-24.8	-17.6	-0.8	-8.1	3.8	5.4		
Somalia	5.4	5.4	5.4	5.4	5.4	5.4	5.4		
South Africa	**3.1**	**4.3**	**2.6**	**0.8**	**2.1**	**3.4**	**2.2**	**2.7**	**3.0**
Sudan	3.0	4.9	10.0	6.0	7.7	9.7	5.3		
Swaziland	3.8	3.9	3.8	3.2	3.5	2.2	1.6		
Tanzania	**3.6**	**4.2**	**3.3**	**4.0**	**4.8**	**4.9**	**5.6**	**5.7**	**5.9**
Togo	6.9	9.7	4.3	-2.1	2.9	-1.9	2.7		
Tunisia	**2.4**	**7.1**	**5.4**	**4.8**	**6.1**	**4.7**	**5.2**	**3.6**	**5.0**
Uganda	**11.9**	**8.6**	**5.1**	**4.7**	**7.6**	**5.0**	**5.6**	**5.7**	**6.3**
Zambia	**-2.5**	**6.6**	**3.3**	**-1.9**	**2.2**	**3.6**	**5.2**	**2.8**	**3.1**
Zimbabwe	**-0.6**	**8.6**	**3.8**	**2.9**	**-0.7**	**-5.1**	**-7.4**	**-11.4**	**-5.6**
AEO countries	**3.0**	**5.8**	**3.2**	**3.7**	**3.2**	**3.3**	**3.4**	**2.6**	**3.3**
Africa	**3.1**	**5.5**	**3.6**	**3.5**	**3.1**	**3.6**	**3.5**		

Note: *Fiscal year
Sources: Various domestic authorities, IMF World Economic Outlook (September 2002) and authors' estimates and predictions.

Table 3 - Demand Composition, 2001 (percentage of GDP)

	Final Consumption			Gross capital formation			External sector		
	Total	Private	Public	Total	Private	Public**	Balance	Exports	Imports
Algeria	**58.6**	**43.6**	**14.9**	**27.2**	**18.7**	**8.5**	**14.2**	**36.6**	**22.3**
Angola	59.0	29.2	29.8	29.7	24.1	5.6	11.3	90.1	78.8
Benin	92.3	80.8	11.5	19.5	10.8	8.7	-11.8	15.6	27.4
Botswana*	**57.2**	**27.7**	**29.5**	**21.3**	**14.5**	**6.8**	**21.5**	**52.5**	**31.0**
Burkina Faso	**90.1**	**78.5**	**11.7**	**26.1**	**14.3**	**11.8**	**-16.2**	**11.9**	**28.1**
Burundi	99.6	85.2	14.4	12.2	2.2	10.0	-11.8	8.5	20.3
Cameroon*	**79.6**	**68.4**	**11.2**	**17.8**	**15.7**	**2.1**	**2.6**	**31.8**	**29.2**
Cape Verde	110.1	89.1	21.0	32.0	26.3	5.7	-42.1	20.3	62.4
Central African Republic	90.9	78.0	12.9	14.5	7.2	7.3	-5.5	19.1	24.6
Chad	94.9	85.8	9.1	44.5	27.4	17.1	-39.4	15.4	54.8
Comoros	95.8	80.3	15.5	18.4	7.0	11.4	-17.5	26.3	43.8
Congo	36.8	27.6	9.2	24.9	15.1	9.8	38.3	96.5	58.2
Congo Democratic Republic	87.3	77.2	10.1	9.3	7.7	1.6	3.4	31.9	28.6
Côte d'Ivoire	**80.6**	**66.9**	**13.7**	**10.9**	**9.2**	**1.7**	**8.5**	**40.2**	**31.7**
Djibouti	103.9	77.8	26.0	15.8	11.9	3.9	-16.9	45.4	62.2
Egypt*	**87.8**	**77.7**	**10.1**	**16.9**	**12.9**	**4.0**	**-4.8**	**17.4**	**22.1**
Equatorial Guinea	13.9	6.8	7.0	47.3	43.5	3.7	38.9	107.1	68.3
Eritrea	...	...	...	...	...	...	...	...	...
Ethiopia*	**97.8**	**80.2**	**17.5**	**18.0**	**9.2**	**8.9**	**-15.8**	**15.4**	**31.2**
Gabon	**50.5**	**35.8**	**14.7**	**29.5**	**23.7**	**5.8**	**20.0**	**57.7**	**37.7**
Gambia	89.0	74.1	14.9	20.5	12.7	7.9	-18.3	60.9	79.2
Ghana	**94.7**	**76.9**	**17.8**	**21.3**	**13.8**	**7.5**	**-16.0**	**45.5**	**61.5**
Guinea	80.0	73.8	6.1	21.8	14.8	7.0	-1.8	32.7	34.5
Guinea Bissau	100.5	88.6	11.9	26.2	8.1	18.1	-26.7	33.1	59.8
Kenya	**94.5**	**77.7**	**16.8**	**14.5**	**9.4**	**5.0**	**-9.0**	**26.2**	**35.1**
Lesotho	130.7	97.6	33.1	24.4	8.1	16.4	-55.1	29.2	84.4
Liberia	79.6	68.0	11.6	6.5	6.5	...	2.9	26.6	23.7
Libya	...	...	...	...	...	...	...	...	...
Madagascar	91.1	80.9	10.2	18.6	13.7	4.9	-9.7	24.9	34.6
Malawi	96.0	86.5	9.6	17.9	8.0	10.0	-14.0	31.1	45.1
Mali	**83.4**	**71.4**	**12.0**	**21.1**	**14.1**	**7.0**	**-4.5**	**30.6**	**35.1**

Table 3 - Demand Composition, 2001 (percentage of GDP) *(cont.)*

	Final Consumption			Gross capital formation			External sector		
	Total	Private	Public	Total	Private	Public**	Balance	Exports	Imports
Mauritania	90.7	75.1	15.6	28.9	10.9	18.0	-19.6	42.3	61.9
Mauritius	**73.4**	**60.8**	**12.6**	**20.9**	**14.5**	**6.5**	**5.7**	**68.6**	**62.9**
Morocco	**79.8**	**60.3**	**19.5**	**23.4**	**20.5**	**2.9**	**-3.2**	**32.8**	**36.0**
Mozambique	**79.9**	**68.5**	**11.4**	**36.6**	**22.6**	**14.0**	**-16.5**	**21.9**	**38.5**
Namibia	94.4	60.9	33.6	23.8	14.0	9.8	-18.2	67.2	85.4
Niger	97.2	84.8	12.4	11.8	5.0	6.8	-9.0	14.9	23.9
Nigeria	**73.4**	**49.3**	**24.0**	**20.7**	**8.1**	**12.6**	**5.9**	**46.9**	**41.0**
Rwanda	98.7	86.4	12.3	16.9	7.5	9.4	-15.5	8.3	23.9
São Tomé and Principe	103.3	76.0	27.3	49.2	21.0	28.2	-52.5	33.7	86.1
Senegal	**88.1**	**71.6**	**16.5**	**20.0**	**13.6**	**6.4**	**-8.1**	**29.6**	**37.7**
Seychelles	76.8	54.2	22.6	25.7	22.7	3.1	-2.5	85.5	88.1
Sierra Leone	111.9	90.9	21.0	25.6	7.7	17.9	-37.5	18.5	56.1
Somalia	109.2	55.6	53.6	8.2	6.0	2.2	-17.0	7.5	24.5
South Africa* **	**80.6**	**62.5**	**18.1**	**15.6**	**11.7**	**3.8**	**3.8**	**31.0**	**27.1**
Sudan	...	...	...	...	...	...	...	...	...
Swaziland	80.0	53.8	26.2	33.6	26.8	6.8	-13.6	81.1	94.8
Tanzania	**91.6**	**85.3**	**6.3**	**17.0**	**11.6**	**5.4**	**-8.6**	**15.9**	**24.5**
Togo	93.8	83.5	10.2	20.1	13.3	6.7	-13.8	30.4	44.2
Tunisia	**76.1**	**60.3**	**15.8**	**27.8**	**23.2**	**4.6**	**-3.8**	**46.3**	**50.1**
Uganda	**104.9**	**92.3**	**12.6**	**20.1**	**13.8**	**6.3**	**-25.1**	**9.8**	**34.8**
Zambia	**95.8**	**78.6**	**17.2**	**20.0**	**8.4**	**11.6**	**-15.8**	**29.2**	**45.0**
Zimbabwe	**100.8**	**67.0**	**33.8**	**0.4**	**-2.0**	**2.4**	**-1.2**	**23.3**	**24.6**

Note: *Fiscal year.
** Public fixed capital formation
*** Residual Item reported by the South African Reserve Bank has been reallocated in the domestic expenditure items.

Sources: Various domestic authorities and IMF World Economic Outlook (September 2002).

Table 4 - Public Finances, 2001 ($ 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
Algeria	**19 139**	**18 904**	**..**	**17 290**	**11 304**	**3 910**	**1 911**	**5 992**	**3 761**	**1 850**
Angola	3 868	..	..	3 384	..	..	..	..	275	483
Benin	481	..	..	501	..	..	..	..	- 15	- 20
Botswana*	**2 599**	**2 224**	**12**	**2 125**	**1 566**	**505**	**15**	**577**	**490**	**475**
Burkina Faso	**427**	**291**	**116**	**619**	**294**	**133**	**24**	**328**	**- 168**	**- 192**
Burundi	154	..	..	210	..	..	..	..	- 12	- 56
Cameroon*	**1 838**	**1 720**	**36**	**1 628**	**1 319**	**468**	**339**	**288**	**549**	**210**
Cape Verde	193	..	..	219	..	..	..	..	- 5	- 26
Central African Republic	180	..	..	193	..	..	..	..	5	- 13
Chad	271	..	..	434	..	..	..	..	- 67	- 163
Comoros	39	..	..	51	..	..	..	..	- 4	- 11
Congo	803	..	..	779	..	..	..	..	235	24
Congo Democratic Republic	509	..	..	1 227	..	..	..	..	...	- 718
Côte d'Ivoire	**1 879**	**1 595**	**55**	**1 784**	**1 575**	**661**	**355**	**196**	**450**	**95**
Djibouti	179	..	..	193	..	..	..	..	- 2	- 14
Egypt*	**20 726**	**13 980**	**428**	**26 166**	**22 007**	**6 864**	**5 691**	**4 110**	**252**	**-5 439**
Equatorial Guinea	540	..	..	202	..	..	..	..	270	338
Eritrea	...	..	..	...	..	..	..	..	...	...
Ethiopia*	**1 537**	**893**	**316**	**1 896**	**1 246**	**432**	**130**	**601**	**- 228**	**- 358**
Gabon	**1 622**	**512**	**..**	**1 290**	**1 081**	**298**	**407**	**167**	**739**	**332**
Gambia	87	..	..	92	..	..	..	..	...	- 4
Ghana	**1 196**	**924**	**222**	**1 426**	**983**	**291**	**424**	**444**	**193**	**- 231**
Guinea	499	..	..	540	..	..	..	..	- 57	- 40
Guinea Bissau	65	..	..	100	..	..	..	..	- 5	- 35
Kenya*	**2 791**	**2 256**	**192**	**2 956**	**2 523**	**483**	**378**	**418**	**213**	**- 165**
Lesotho	377	..	..	383	..	..	..	..	39	- 6
Liberia	1 118	..	..	1 395	..	..	..	..	- 5	- 276
Libya	...	..	..	...	..	..	..	..	...	...
Madagascar	833	..	..	1 026	..	..	..	..	- 131	- 193
Malawi	386	..	..	399	..	..	..	..	- 108	- 14
Mali	**574**	**384**	**137**	**726**	**357**	**112**	**20**	**370**	**- 133**	**- 153**

Table 4 - Public Finances, 2001 ($ million, current prices) *(cont.)*

	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
Mauritania	264	..	..	255	..	..	..	..	- 10	9
Mauritius*	**783**	**693**	**7**	**1 046**	**908**	**284**	**174**	**134**	**- 89**	**- 263**
Morocco	**10 645**	**7 532**	**..**	**11 574**	**8 295**	**4 304**	**1 682**	**1 906**	**753**	**- 929**
Mozambique	**930**	**415**	**465**	**1 122**	**507**	**237**	**23**	**504**	**- 169**	**- 192**
Namibia	1 087	..	..	1 218	..	..	..	..	- 72	- 131
Niger	271	..	..	345	..	..	..	..	- 39	- 73
Nigeria	**20 659**	**7 848**	**..**	**21 962**	**7 317**	**2 571**	**3 494**	**7 716**	**2 191**	**-1 303**
Rwanda	281	..	..	364	..	..	..	..	- 5	- 83
São Tomé and Principe	30	..	..	33	..	..	..	..	- 5	- 3
Senegal	**906**	**787**	**84**	**1 000**	**705**	**242**	**41**	**296**	**- 52**	**- 94**
Seychelles	250	..	..	333	..	..	..	..	- 12	- 83
Sierra Leone	209	..	..	304	..	..	..	..	- 41	- 95
Somalia	937	..	..	1 079	..	..	..	..	...	- 141
South Africa*	**26 017**	**25 586**	**..**	**28 149**	**27 753**	**10 661**	**5 380**	**1 510**	**3 249**	**-2 132**
Sudan	...	..	..	...	..	..	..	..	61	...
Swaziland	381	..	..	437	..	..	..	..	- 31	- 56
Tanzania*	**1 396**	**945**	**335**	**1 492**	**1 146**	**360**	**146**	**327**	**50**	**- 96**
Togo	194	..	..	253	..	..	..	..	- 1	- 60
Tunisia	**5 964**	**4 337**	**54**	**6 468**	**4 833**	**2 395**	**614**	**1 535**	**110**	**- 505**
Uganda*	**1 126**	**620**	**463**	**1 342**	**808**	**281**	**78**	**541**	**- 138**	**- 217**
Zambia	**894**	**672**	**206**	**1 187**	**677**	**246**	**92**	**431**	**- 202**	**- 293**
Zimbabwe	**2 526**	**2 337**	**54**	**3 298**	**3 064**	**1 270**	**751**	**234**	**- 21**	**- 772**

Note: *Fiscal year.
** Only major Items are reported.
Sources: Various domestic authorities and IMF World Economic Outlook (September 2002).

Table 5 - Monetary Indicators

	Inflation (%)			Exchange Rate (LCU / $)			Broad Money (LCU billion) 2001			Reserves, excluding gold, ($ million) 2001	
	2001	2002 (e)	2003 (p)	2000	2001	Nov-2002	Level	% of GDP	Growth 2000/2001	Stock at year-end	Eq. months of imports
Algeria	**4.2**	**4.4**	**3.8**	**75.3**	**77.2**	**81.9**	**2 067.0**	**49.0**	**24.6**	**18 081**	**22.2**
Angola	152.6	94.8	...	10.0	22.1	31.6	41.7	20.0	163.2	732	2.6
Benin	3.9	3.4	...	712.0	733.0	684.3	592.6	34.1	12.7	578	14.9
Botswana*	**8.0**	**6.0**	**7.1**	**5.1**	**5.8**	**5.9**	**9.7**	**31.8**	**33.2**	**5 897**	**42.6**
Burkina Faso	**4.9**	**2.5**	**3.2**	**712.0**	**733.0**	**684.3**	**465.5**	**27.3**	**9.1**	**260**	**6.1**
Burundi	9.3	-5.4	...	720.7	830.4	1 053.9	95.8	17.7	4.3	18	2.0
Cameroon*	**2.8**	**4.5**	**3.4**	**712.0**	**733.0**	**684.3**	**1 094.3**	**17.3**	**17.9**	**332**	**2.5**
Cape Verde	3.0	...	...	115.9	123.2	110.0	45.8	66.8	9.8	45	2.5
Central African Republic	3.5	...	...	712.0	733.0	684.3	109.7	15.5	-1.1	119	11.3
Chad	16.8	2.5	...	712.0	733.0	684.3	145.3	12.4	17.8	122	2.8
Comoros	3.5	...	...	534.0	549.8	489.3	32.2	26.6	53.2	62	18.7
Congo	-0.5	7.2	...	712.0	733.0	684.3	258.0	12.8	-22.8	69	1.3
Congo Democratic Republic	358.0	...	...	21.8	...	...	22.0	1.8	493.1	...	0.0
Côte d'Ivoire	**4.3**	**4.9**	**3.9**	**712.0**	**733.0**	**684.3**	**1 841.5**	**23.9**	**11.8**	**1 019**	**5.5**
Djibouti	0.4	...	...	177.7	177.7	181.0	56.6	56.0	7.5	70	3.3
Egypt*	**2.4**	**2.5**	**3.8**	**3.5**	**4.0**	**4.7**	**284.3**	**78.6**	**11.6**	**12 926**	**9.4**
Equatorial Guinea	6.0	...	...	712.0	733.0	684.3	64.7	5.1	35.1	71	1.0
Eritrea	18.1	...	...	...	...	...	...	...	...	...	...
Ethiopia*	**-7.2**	**-7.2**	**4.3**	**8.2**	**8.5**	**8.9**	**24.6**	**47.3**	**9.5**	**428**	**3.3**
Gabon	**2.1**	**2.4**	**1.1**	**712.0**	**733.0**	**684.3**	**509.4**	**14.6**	**11.6**	**10**	**0.1**
Gambia	3.5	...	...	12.8	...	23.3	2.2	35.9	11.0	...	0.0
Ghana	**32.9**	**14.3**	**12.4**	**5 455.1**	**7 170.8**	**8 515.4**	**10 248.0**	**26.9**	**41.4**	**298**	**1.3**
Guinea	6.9	...	...	1 746.9	1 950.6	2 033.1	671.8	11.5	14.8	...	...
Guinea Bissau	3.3	0.6	...	712.0	733.0	684.3	70.5	48.3	10.2	69	10.4
Kenya	**0.8**	**2.0**	**4.1**	**76.2**	**78.6**	**80.0**	**363.7**	**40.6**	**1.7**	**1 065**	**4.1**
Lesotho	6.5	...	...	6.9	8.6	9.8	2.1	30.2	17.0	386	7.0
Liberia	10.0	...	...	41.0	48.6	1.0	0.8	...	9.1	...	...
Libya	13.6	...	...	0.5	0.6	1.3	...	...	...	14 801	...
Madagascar	8.3	...	...	6 767.5	6 588.5	6 697.4	6 875.4	22.9	16.2	398	4.6
Malawi	32.7	...	...	59.5	72.2	82.9	18.7	14.8	10.5	207	5.0
Mali	**5.1**	**3.9**	**3.6**	**712.0**	**733.0**	**684.3**	**487.2**	**25.3**	**19.3**	**349**	**5.8**

Table 5 - Monetary Indicators (cont.)

	Inflation (%)			Exchange Rate (LCU / $)			Broad Money (LCU billion) 2001			Reserves, excluding gold, ($ million) 2001	
	2001	2002 (e)	2003 (p)	2000	2001	Nov-2002	Level	% of GDP	Growth 2000/2001	Stock at year-end	Eq. months of imports
Mauritania	6.3	0.6	...	238.9	255.2	281.0	38.7	15.7	17.3	...	0.0
Mauritius	**5.4**	**7.0**	**6.4**	**26.2**	**29.1**	**29.8**	**97.7**	**78.4**	**9.9**	**836**	**5.2**
Morocco	**0.6**	**2.5**	**3.1**	**10.6**	**11.3**	**10.6**	**327.4**	**85.5**	**14.2**	**8 474**	**10.1**
Mozambique	**9.0**	**9.4**	**7.9**	**15 447.1**	**20 703.6**	**23 581.0**	**21 763.5**	**29.1**	**29.7**	**716**	**7.7**
Namibia	19.4	10.9	...	6.9	8.6	9.8	10.2	38.1	6.2	234	1.7
Niger	4.2	4.9	...	712.0	733.0	684.3	136.5	9.5	32.3	107	3.7
Nigeria	**18.9**	**13.4**	**11.9**	**101.7**	**...**	**132.1**	**1 315.9**	**28.0**	**27.0**	**...**	**...**
Rwanda	5.7	-0.3	...	389.7	443.0	...	130.4	17.3	9.2	212	10.0
São Tomé and Principe	12.3	...	...	7 978.2	8 842.1	8 618.5	126.5	30.0	12.6	15	7.6
Senegal	**3.0**	**2.6**	**2.6**	**712.0**	**733.0**	**684.3**	**899.3**	**26.6**	**13.8**	**446**	**4.0**
Seychelles	7.3	...	...	5.7	5.9	5.9	3.7	110.3	11.4	37	1.1
Sierra Leone	-0.9	-3.8	...	2 092.1	1 986.2	1 930.1	285.1	19.2	31.0	52	3.8
Somalia	24.3	...	...	...	...	...	11 341.7	...	33.4	...	...
South Africa	**6.6**	**9.6**	**7.7**	**6.9**	**8.6**	**9.7**	**594.2**	**60.9**	**17.1**	**6 045**	**2.8**
Sudan	6.0	...	...	257.1	258.7	256.0	...	...	...	...	...
Swaziland	9.8	...	...	6.9	8.6	9.8	2.3	21.7	10.7	272	3.8
Tanzania	**5.2**	**4.8**	**4.2**	**800.4**	**876.4**	**1 011.5**	**1 233.7**	**15.1**	**12.8**	**1 157**	**9.2**
Togo	0.5	5.3	...	712.0	733.0	684.3	235.5	25.5	-7.5	126	3.0
Tunisia	**1.9**	**3.4**	**3.0**	**1.4**	**1.4**	**1.4**	**17.4**	**60.5**	**11.4**	**1 989**	**2.7**
Uganda	**4.6**	**1.0**	**3.1**	**1 644.5**	**1 755.7**	**1 738.0**	**1 583.6**	**15.9**	**17.5**	**983**	**12.1**
Zambia	**21.7**	**21.3**	**21.4**	**3 110.8**	**3 610.9**	**4 880.8**	**2 753.0**	**21.1**	**10.7**	**183**	**1.8**
Zimbabwe	**71.9**	**129.0**	**102.0**	**44.4**	**55.1**	**57.1**	**238.3**	**47.1**	**102.7**	**65**	**0.5**

Note: *Fiscal year.
Sources: Inflation : Domestic authorities, United Nations Monthly Bulletin of Statistics, IMF International Financial Statistics and authors'estimates and predictions.

Table 6 - Current Account, 2001 ($ million)

	Trade balance	Exports of goods	Imports of goods	Services balance	Net income	Current transfers	Current account balance
Algeria	**9 323**	**19 112**	**-9 789**	**-1 530**	**-1 690**	**670**	**6 773**
Angola	3 438	6 754	-3 316	-2 590	-1 286	247	- 191
Benin	- 257	210	- 467	- 47	- 21	165	- 159
Botswana*	**1 218**	**2 716**	**-1 498**	**26**	**- 313**	**- 16**	**915**
Burkina Faso	**- 276**	**234**	**- 510**	**- 106**	**- 19**	**113**	**- 288**
Burundi	- 69	39	- 108	- 31	2	11	- 87
Cameroon*	**510**	**2 129**	**-1 619**	**- 285**	**- 495**	**85**	**- 185**
Cape Verde	- 188	30	- 218	11	- 3	121	- 58
Central African Republic	15	142	- 127	- 76	- 16	22	- 54
Chad	- 356	175	- 531	- 252	- 13	40	- 581
Comoros	- 22	18	- 40	9	1	5	- 7
Congo	1 566	2 180	- 614	- 631	- 834	3	104
Congo Democratic Republic	238	940	- 702	- 176	- 414	228	- 124
Côte d'Ivoire	**1 671**	**4 084**	**-2 414**	**- 687**	**- 594**	**- 293**	**97**
Djibouti	- 177	76	- 253	98	13	41	- 25
Egypt*	**-9 363**	**7 078**	**-16 441**	**4 486**	**1 072**	**3 742**	**- 63**
Equatorial Guinea	939	1 798	- 859	- 583	-1 213	1	- 854
Eritrea	- 469	20	- 489	95	- 4	292	- 87
Ethiopia*	**-1 117**	**441**	**-1 558**	**137**	**- 59**	**774**	**- 265**
Gabon	**1 635**	**2 634**	**- 999**	**- 631**	**-1 008**	**- 46**	**- 50**
Gambia	- 78	140	- 218	3	- 8	57	- 26
Ghana	**- 759**	**1 893**	**-2 652**	**3**	**- 68**	**751**	**- 72**
Guinea	169	731	- 562	- 220	- 92	31	- 111
Guinea Bissau	- 33	47	- 80	- 29	- 16	39	- 38
Kenya	**-1 282**	**1 894**	**-3 176**	**262**	**- 147**	**850**	**- 318**
Lesotho	- 353	308	- 661	- 2	162	121	- 72
Liberia	314	984	- 670	- 238	- 84	28	19
Libya	...	...	...	...	...	...	...
Madagascar	- 117	928	-1 045	- 222	- 88	169	- 259
Malawi	- 88	407	- 495	- 120	- 32	113	- 128
Mali	**- 4**	**724**	**- 728**	**- 285**	**- 137**	**115**	**- 311**

Table 6 - Current Account, 2001 ($ million) *(cont.)*

	Trade balance	Exports of goods	Imports of goods	Services balance	Net income	Current transfers	Current account balance
Mauritania	- 12	345	- 357	- 110	- 23	90	- 55
Mauritius	**- 280**	**1 633**	**-1 913**	**329**	**3**	**62**	**114**
Morocco	**-3 035**	**7 214**	**-10 249**	**1 938**	**- 843**	**3 611**	**1 672**
Mozambique**	**- 413**	**704**	**-1 117**	**- 363**	**0**	**469**	**- 308**
Namibia	- 243	1 367	-1 610	- 199	171	409	139
Niger	- 65	283	- 348	- 96	- 15	65	- 111
Nigeria	**5 639**	**18 832**	**-13 193**	**-2 703**	**-2 514**	**1 815**	**2 237**
Rwanda	- 162	93	- 255	- 119	- 20	191	- 110
São Tomé and Principe	- 21	3	- 24	- 7	- 4	12	- 19
Senegal	**- 383**	**967**	**-1 350**	**- 14**	**- 72**	**249**	**- 220**
Seychelles	- 198	217	- 415	67	- 17	3	- 145
Sierra Leone	- 86	77	- 163	- 50	- 22	55	- 103
Somalia	- 340	179	- 518	...	...	...	- 126
South Africa	**4 872**	**30 414**	**-25 542**	**- 531**	**-3 810**	**- 727**	**- 196**
Sudan	103	1 688	-1 585	- 455	-1 359	434	-1 278
Swaziland	- 50	804	- 854	- 104	38	89	- 27
Tanzania	**- 713**	**776**	**-1 490**	**- 99**	**- 44**	**443**	**- 414**
Togo	- 157	349	- 506	- 59	- 24	39	- 200
Tunisia	**-2 391**	**6 606**	**-8 997**	**1 486**	**- 34**	**76**	**- 863**
Uganda	**- 579**	**448**	**-1 027**	**- 208**	**- 14**	**928**	**128**
Zambia	**- 355**	**898**	**-1 253**	**- 229**	**- 139**	**- 20**	**- 743**
Zimbabwe	**76**	**1 698**	**-1 622**	**- 198**	**- 250**	**120**	**- 252**
Africa	**7 235**	**134 461**	**-127 226**	**-5 334**	**-16 396**	**16 893**	**2 615**

Note: *Fiscal year.
**Net income is included in services.

Sources: Domestic authorities and IMF World Economic Outlook (September 2002).

Table 7 - Exports, 2000

	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	
Algeria	**Crude petroleum (34.9%)**	**Motor gasolene,light oil (12.2%)**	**Natural gas, liquefied (12.1%)**	**6**
Angola	Crude petroleum (88.4%)	Diamonds.excl.industrial (8%)	Fuel oils, nes (1.7%)	1
Benin	Cotton,not carded,combed (48.8%)	Cotton, carded or combed 9%)	Goat or kid skin leather (8.6%)	5
Botswana	**Diamonds.excl.industrial (69.8%)**	**Nickel mattes,sintrs.etc (11.8%)**	**Bovine meat,frsh,chilled (4.2%)**	**2**
Burkina Faso	**Cotton,not carded,combed (44%)**	**Dom.refrigeratrs,freezrs (4.5%)**	**Sugars,beet or cane, raw (4.1%)**	**13**
Burundi	Coffee, not roasted (77.2%)	Tea (10%)	Ore etc.molybdn.niob.etc (2.4%)	1
Cameroon	**Crude petroleum (38.6%)**	**Wood,non-conifer, sawn (14.2%)**	**Wood,non-conif,rough,unt (9.4%)**	**5**
Cape Verde	Parts footwear,etc. (23.5%)	Propane, liquefied (15.4%)	Shirts (9.3%)	11
Central African Republic	Diamonds.excl.industrial (71.9%)	Wood,non-conif,rough,unt (9.3%)	Cotton,not carded,combed (6%)	2
Chad	Cotton,not carded,combed (78.9%)	Natural gums,resins,etc. (12.2%)		1
Comoros	Spices,ex.pepper,pimento (60.6%)	Essential oils (21.2%)	Lead ores, concentrates (7.2%)	2
Congo	Crude petroleum (76.3%)	Fuel oils, nes (7.7%)	Wood,non-conif,rough,unt (3.8%)	1
Congo Democratic Republic	Diamonds.excl.industrial (83.5%)	Oth.non-ferr.ore,concntr (7.3%)	Cobalt,cadmium,etc.unwrt (3.6%)	1
Côte d'Ivoire	**Cocoa beans (37.4%)**	**Coffee, not roasted (6.5%)**	**Wood,non-conifer, sawn (5.7%)**	**10**
Djibouti	Gold,nonmontry excl ores (12%)	Sodium chloride, etc. (11%)	Flat-rolld.iron,zinc plt (5.4%)	23
Egypt	**Crude petroleum (22.7%)**	**Motor gasolene,light oil (11.7%)**		**34**
Equatorial Guinea	Crude petroleum (82.1%)	Wood,non-conif,rough,unt (7.8%)	Lubricants (3.7%)	1
Eritrea	Gold,nonmontry excl ores (20%)	Oth.bovine,equine leathr (8.1%)	Natural gums,resins,etc. (6.5%)	17
Ethiopia	**Coffee, not roasted (62.1%)**	**Sheep skin without wool (6.3%)**	**Sesame (sesamum) seeds (4.9%)**	**4**
Gabon	**Crude petroleum (77.9%)**	**Wood,non-conif,rough,unt (13.5%)**	**Manganese ores,concentrs (4.3%)**	**1**
Gambia	Diamonds.excl.industrial (40.5%)	Generating sets (11.3%)	Groundnuts (peanuts) (9.7%)	6
Ghana	**Cocoa beans (31.3%)**	**Alum.,alum.alloy,unwrght (13.5%)**	**Wood,non-conifer, sawn (7.6%)**	**8**
Guinea	Aluminium ore,concentrat (48%)	Diamonds.excl.industrial (20.5%)	Alumina(aluminium oxide) (11.2%)	3
Guinea Bissau	Fish,frozen ex.fillets (51.4%)	Cotton,not carded,combed (14%)	Molluscs (9.8%)	3
Kenya	**Tea (19.7%)**	**Coffee, not roasted (10.8%)**	**Cut flowers and foliage (9.7%)**	**19**
Lesotho	Trousers,breeches,etc. (43.5%)	Jersys,pullovrs,etc.knit (24.6%)	Diamonds.excl.industrial (10.6%)	3
Liberia	Ships,boats,othr.vessels (54.3%)	Diamonds.excl.industrial (13.7%)	Wood,non-conif,rough,unt (13.7%)	3
Libya	Crude petroleum (81.6%)	Fuel oils, nes (5.7%)		1
Madagascar	Spices,ex.pepper,pimento (17.1%)	Jersys,pullovrs,etc.knit (17.1%)	Crustaceans, frozen (13.3%)	13
Malawi	Tobacco,stemmed,stripped (64.5%)	Tea (8.8%)	Sugars,beet or cane, raw (4.3%)	3
Mali	**Cotton,not carded,combed (70.3%)**			**2**

Table 7 - Exports, 2000 *(cont.)*

	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	
Mauritania	Iron ore,concntr.not agg (41.9%)	Fish,frozen ex.fillets (23.5%)	Molluscs (22.1%)	3
Mauritius	**Sugars,beet or cane, raw (13.6%)**	**T-shirts,othr.vests knit (13.3%)**	**Jersys,pullovrs,etc.knit (12.3%)**	**9**
Morocco	**Molluscs (6.4%)**	**Diodes,transistors etc. (6.1%)**	**Natural calc.phosphates (5.9%)**	**34**
Mozambique	**Crustaceans, frozen (30.2%)**	**Alum.,alum.alloy,unwrght (9.1%)**	**Cotton,not carded,combed (8.4%)**	**10**
Namibia	Fish fillets, frozen (20.4%)	Fish,frozen ex.fillets (16.7%)	Diamonds.excl.industrial (15.8%)	6
Niger	Radio-active chemicals (64.1%)			7
Nigeria	**Crude petroleum (91.2%)**			**1**
Rwanda	Coffee, not roasted (46.8%)	Ore etc.molybdn.niob.etc (16%)	Tea (11.3%)	4
São Tomé and Principe	Fish,frozen ex.fillets (43.3%)	Cocoa beans (19.5%)	Metal forming mach.tools (8.1%)	4
Senegal	**Groundnut oil, fractions (17.5%)**	**Crustaceans, frozen (11.1%)**	**Molluscs (9.8%)**	**13**
Seychelles	Fish,prepard,presrvd,nes (70.2%)	Fish,frozen ex.fillets (14.8%)		2
Sierra Leone	Convertible seats,parts (35.5%)	Diamonds.excl.industrial (17.2%)	Spirits (4.9%)	17
Somalia	Oth.wheat,meslin,unmlled (25.6%)	Bovine animals, live (6.6%)	Rice,milled,semi-milled (6.5%)	
South Africa	**Platinum (15%)**	**Diamonds.excl.industrial (9%)**	**Oth.coal,not agglomeratd (6.4%)**	**53**
Sudan	Crude petroleum (80.5%)	Sesame (sesamum) seeds (6.4%)		1
Tanzania	**Fish fillets,frsh,chilld (15.3%)**	**Coffee, not roasted (15.1%)**	**Tobacco,stemmed,stripped (7.8%)**	**15**
Togo	Natural calc.phosphates (22.9%)	Cotton,not carded,combed (20%)	Coffee, not roasted (7.4%)	14
Tunisia	**Trousers,breeches,etc. (18.7%)**	**Crude petroleum (6.7%)**	**Insultd wire,etc.condctr (6%)**	**30**
Uganda	**Coffee, not roasted (55.6%)**	**Tobacco,stemmed,stripped (7.2%)**	**Fish fillets, frozen (7.2%)**	**5**
Zambia	**Copper;anodes;alloys (41.3%)**	**Cobalt,cadmium,etc.unwrt (15.1%)**	**Cotton yarn,excl. thread (5.9%)**	**7**
Zimbabwe	**Tobacco,stemmed,stripped (26.5%)**	**Other ferro-alloys (10.3%)**	**Cotton,not carded,combed (7.9%)**	**15**
Africa	**Crude petroleum (38.8%) [15 %]**	**Diamonds.excl.industrial (3.8%) [10.5 %]**	**Platinum (3%) [24.3 %]**	**37**

Note: * Products are reported when accounting for more than 4 per cent of total exports.
** Figures in [ ] represent the share of Africa in the World export for each product.

Source: International Trade Center (UNCTAD/WTO) and The United Nations Statistics Division, 2000.

Table 8 - Diversification and Competitiveness

	Diversification index					Annual export growth (%)	Competitiveness Indicator 1996-2000 (%)	
	1996	1997	1998	1999	2000	1996-2000	Sectoral effect	Global competitiveness effect
Algeria	**5.8**	**7.1**	**6.8**	**6.5**	**5.8**	**9.2**	**5.7**	**-1.3**
Angola	1.2	1.3	1.4	1.4	1.3	17.2	5.1	7.3
Benin	2.0	1.7	1.8	2.0	3.4	-5.7	-12.4	1.9
Botswana	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Burkina Faso	**3.4**	**2.1**	**2.2**	**2.2**	**4.6**	**7.0**	**-8.9**	**11.1**
Burundi	2.4	1.6	1.2	1.9	1.6	-9.6	-11.0	-3.3
Cameroon	**6.4**	**5.7**	**7.1**	**6.9**	**5.1**	**-0.3**	**-4.7**	**-0.5**
Cape Verde	7.9	14.9	9.8	6.2	8.5	4.9	-7.3	7.4
Central African Republic	2.0	2.5	2.0	1.8	1.8	10.7	-4.0	9.9
Chad	1.5	1.3	1.3	1.4	1.5	-6.8	-14.2	2.6
Comoros	4.5	2.9	2.6	4.7	2.2	-0.7	-8.1	2.5
Congo	1.5	1.4	1.9	1.9	1.7	21.1	2.7	13.5
Congo Democratic Republic	1.9	1.7	2.1	1.6	1.7	-11.9	-3.2	-13.5
Côte d'Ivoire	**6.4**	**6.6**	**5.0**	**4.9**	**5.8**	**-6.7**	**-8.8**	**-2.8**
Djibouti	10.8	10.7	15.8	13.1	17.2	2.1	-8.3	5.6
Egypt	**4.3**	**6.4**	**8.9**	**7.9**	**13.1**	**-2.6**	**2.8**	**-10.2**
Equatorial Guinea	3.3	2.1	1.8	1.9	1.5	141.8	-1.6	138.6
Eritrea	2.0	1.6	4.2	4.0	12.2	-15.1	-14.4	-5.5
Ethiopia	**2.6**	**2.0**	**1.8**	**2.3**	**2.4**	**-3.2**	**-10.6**	**2.6**
Gabon	**1.7**	**1.6**	**1.9**	**1.9**	**1.6**	**3.4**	**1.1**	**-2.6**
Gambia	1.7	1.6	2.1	2.4	4.4	-18.7	-3.1	-20.5
Ghana	**6.4**	**7.2**	**7.1**	**7.1**	**7.2**	**-3.8**	**-6.4**	**-2.2**
Guinea	2.9	3.5	3.5	3.8	3.4	0.6	-8.6	4.3
Guinea Bissau	5.5	2.0	3.3	1.7	3.2	-22.1	-7.9	-19.0
Kenya	**11.2**	**10.8**	**9.5**	**11.1**	**13.2**	**-4.2**	**-6.1**	**-2.9**
Lesotho	...	...	...	...	...	...	...	...
Liberia	2.3	3.4	2.0	3.1	2.9	-8.6	-6.2	-7.2
Libya	1.5	1.6	1.5	1.6	1.5	6.2	6.1	-4.7
Madagascar	16.7	18.7	16.7	16.8	11.3	9.2	-4.9	9.2
Malawi	3.2	2.4	2.8	2.6	2.3	-3.9	-7.8	-1.0
Mali	**1.3**	**1.3**	**1.2**	**1.4**	**1.9**	**-3.4**	**-13.9**	**5.7**

Table 8 - Diversification and Competitiveness *(cont.)*

	Diversification index					Annual export growth (%)	Competitiveness Indicator 1996-2000 (%)	
	1996	1997	1998	1999	2000	1996-2000	Sectoral effect	Global competitiveness effect
Mauritania	3.2	3.1	3.3	3.5	3.5	-4.1	-6.4	-2.5
Mauritius	**9.7**	**10.7**	**10.2**	**11.1**	**12.4**	**-1.5**	**-4.7**	**-1.6**
Morocco	**31.6**	**30.5**	**33.8**	**33.4**	**36.6**	**0.9**	**-4.5**	**0.6**
Mozambique	**6.4**	**7.0**	**7.5**	**8.1**	**7.9**	**9.5**	**-6.6**	**11.2**
Namibia	...	...	...	...	...	...	...	...
Niger	2.9	4.1	1.2	1.5	2.3	72.7	-3.8	71.7
Nigeria	**1.2**	**1.2**	**1.3**	**1.3**	**1.2**	**7.0**	**5.9**	**-3.7**
Rwanda	1.6	3.4	3.1	2.6	3.1	-0.9	-11.0	5.3
SACU *	28.2	22.1	25.3	27.6	22.6	4.3	-1.6	1.1
São Tomé and Principe	2.0	3.3	2.9	5.3	3.7	35.4	-11.3	41.8
Senegal	**16.5**	**18.3**	**15.6**	**12.7**	**13.6**	**-7.2**	**-7.5**	**-4.5**
Seychelles	3.2	2.4	2.0	2.0	1.9	49.2	-7.4	51.8
Sierra Leone	3.0	2.3	2.3	4.3	4.9	-15.9	-2.0	-18.7
Somalia	6.0	5.9	7.3	4.2	6.5	-18.0	-8.3	-14.5
South Africa	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Sudan	6.0	7.6	8.3	4.5	1.5	75.3	-14.4	84.8
Swaziland	...	...	...	...	...	...	...	...
Tanzania	**11.2**	**11.8**	**11.6**	**11.9**	**14.2**	**-4.5**	**-7.9**	**-1.4**
Togo	4.0	4.5	4.7	6.4	7.2	-5.7	-10.6	0.1
Tunisia	**25.0**	**25.4**	**25.9**	**26.6**	**27.7**	**1.8**	**-2.0**	**-1.0**
Uganda	**1.7**	**1.7**	**1.8**	**1.9**	**3.0**	**-11.8**	**-10.3**	**-6.3**
Zambia	**2.6**	**3.2**	**4.2**	**6.0**	**4.8**	**-11.4**	**-7.5**	**-8.7**
Zimbabwe	**12.0**	**9.7**	**11.5**	**8.7**	**9.9**	**-4.6**	**-6.1**	**-3.3**
Africa	**8.1**	**9.2**	**13.5**	**10.6**	**6.3**	**4.0**	**1.1**	**-1.9**

Sources: International Trade Center (UNCTAD/WTO) and The United Nations Statistics Division, 2000.
* Include Botswana, Lesotho, Namibia, South Africa and Swaziland.

Table 9 - International Prices of Exports, 1996-2001

	Unit	1996	1997	1998	1999	2000	2001
Aluminum	($/mt)	1 353.2	1 544.7	1 361.9	1 367.2	1 549.1	1 440.0
Banana (US)	(cents/kg)	422.0	499.4	491.1	374.9	424.0	610.0
Coal (US)	($/mt)	33.4	35.1	34.5	33.3	33.1	44.0
Cocoa	(cents/kg)	145.6	161.9	167.6	113.5	90.6	105.0
Coffee (Arabica)	(cents/kg)	242.1	402.6	299.1	230.1	192.0	136.7
Coffee (Robusta)	(cents/kg)	162.3	167.7	182.9	149.5	91.3	61.7
Copper	($/mt)	2 062.4	2 199.0	1 659.5	1 579.9	1 813.5	1 575.0
Cotton	(c/kg)	159.4	168.8	144.9	117.6	130.2	105.8
Fish Meal	($/mt)	526.6	585.6	664.1	394.3	429.5	...
Gold	($/toz)	348.4	319.8	295.1	280.0	279.0	275.0
Groundnut oil	($/mt)	1 179.1	975.9	912.4	791.2	713.7	675.0
Iron ore, Carajas	(c/dmtu)	27.0	29.1	31.1	27.7	28.8	30.0
Lead	(c/kg)	69.6	60.3	53.0	50.5	45.4	47.0

Table 9 - International Prices of Exports, 1996-2001 *(cont.)*

	Unit	1996	1997	1998	1999	2000	2001
Logs Cameroon	($/CM)	284.3	284.8	286.4	269.3	275.4	265.0
Maize	($/mt)	165.8	117.1	102.0	90.2	88.5	90.0
Oil (crude)	($/bbl)	20.4	19.2	13.1	18.1	28.2	25.0
Palm oil	($/mt)	530.9	545.9	671.1	436.0	310.3	290.0
Phosphate (rock)	($/mt)	39.0	41.0	43.0	44.0	43.8	41.8
Rubber (Malaysia)	(cents/kg)	139.4	101.8	72.2	62.8	69.1	61.7
Sugar (EEC)	(cents/kg)	61.4	60.6	59.9	59.4	57.7	...
Sugar (free market)	(c/kg)	26.4	25.1	19.7	13.8	18.0	18.0
Sugar (US)	(cents/kg)	44.3	46.7	48.8	46.8	44.4	...
Tea (Avg. 3 auctions)	(c/kg)	166.1	206.0	204.6	183.9	187.6	162.0
Tea (Mombasa)	(c/kg)	142.3	201.5	189.9	179.8	202.9	...
Tobacco	($/mt)	3 055.4	3 531.6	3 336.1	3 041.6	2 976.2	3 011.0

Source: World Bank, Economic Policy and Prospects Group

Table 10 - Foreign Direct Investment ($ million)

	FDI inflows						FDI outflows						FDI inflows / GFCF					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
Algeria	270	260	501	507	438	1196	2	8	1	47	18	9	2.3	2.4	4.0	4.1	3.8	9.2
Angola	181	412	1114	2471	879	1119	0	0	0	0	0	0	8.0	21.1	48.6	86.8	28.0	34.8
Benin	25	26	35	61	97	131	12	12	2	23	41	22	6.8	6.6	8.8	14.6	22.5	28.6
Botswana	70	100	96	37	57	57	-1	4	4	1	2	2	5.9	7.7	7.1	2.6	4.3	4.6
Burkina Faso	17	13	10	13	23	26	0	1	5	5	0	3	2.6	2.0	1.3	1.9	3.9	4.2
Burundi	0	0	2	0	12	0	0	0	0	0	0	0	0.0	0.0	2.7	0.0	19.7	0.0
Cameroon	35	45	50	40	31	75	13	7	0	3	4	3	2.5	3.1	3.3	2.3	2.1	5.0
Cape Verde	29	12	9	53	21	1	0	0	0	0	0	0	27.4	10.7	8.3	39.5	17.3	0.8
Central African Republic	5	6	5	13	5	8	0	-1	1	0	0	0	8.4	8.5	4.4	10.7	5.5	9.9
Chad	18	15	16	15	15	80	4	4	5	4	5	5	5.5	5.3	5.4	7.6	6.3	12.0
Comoros	1	0	3	0	1	1	0	0	0	0	0	0	5.5	0.0	12.1	0.0	6.5	6.6
Congo	20	-12	118	135	-75	59	4	4	0	13	3	5	2.5	-2.4	24.9	21.6	-12.1	8.1
Congo Democratic Republic	25	-44	61	11	23	32	0	0	0	0	0	0	1.5	-4.0	7.1	1.0	10.8	13.9
Côte d'Ivoire	302	450	416	381	255	258	33	34	36	57	20	38	16.8	26.5	20.4	21.0	21.8	27.2
Djibouti	3	2	3	4	3	3	0	0	0	0	0	0	6.8	4.3	3.9	8.5	4.5	5.8
Egypt	636	887	1065	2919	1235	510	5	166	38	81	51	12	5.8	6.7	6.7	16.6	6.0	2.4
Equatorial Guinea	376	20	24	120	120	88	0	1	0	1	0	0	127.8	6.1	5.7	25.2	21.3	7.8
Eritrea	37	39	32	36	35	34	0	0	0	0	0	0	19.9	18.4	13.6	15.1	19.5	15.1
Ethiopia	22	288	261	70	135	20	0	228	254	-46	-1	69	2.2	26.5	23.3	6.7	13.9	1.8
Gabon	-489	-311	147	-157	252	200	2	21	33	74	43	50	-46.3	-18.9	8.6	-14.0	22.6	23.1
Gambia	18	21	24	49	44	35	5	5	6	4	5	5	22.2	32.5	30.8	63.8	59.7	31.6
Ghana	120	82	56	63	115	89	150	50	30	77	52	53	8.5	5.0	3.4	3.9	9.5	7.9
Guinea	24	17	18	63	33	38	0	1	0	3	2	2	2.9	2.0	2.6	8.6	5.1	6.0
Guinea Bissau	1	11	4	9	23	30	0	0	0	0	0	0	2.0	16.5	17.0	23.9	66.8	79.1
Kenya	13	40	42	42	127	50	25	5	14	30	40	77	0.7	2.1	2.3	2.6	8.3	3.2
Lesotho	286	269	262	163	119	118	0	0	0	0	0	0	53.0	49.8	61.6	39.3	33.7	41.0
Liberia	-132	15	16	10	12	13	-59	501	-731	310	608	62	-54.3	6.1	6.5	4.1	4.9	5.2
Libya	-136	-82	-150	-118	-142	-101	63	284	299	208	98	84	...	...	...	...	...	...
Madagascar	10	14	16	58	70	108	0	-2	1	0	1	0	2.0	3.1	2.9	10.5	12.0	12.8
Malawi	44	22	70	60	45	58	2	0	6	3	3	4	19.8	8.9	36.4	25.9	21.0	30.4
Mali	47	74	36	51	106	103	4	5	27	50	28	35	8.7	13.3	6.3	9.4	20.1	18.6

Table 10 - Foreign Direct Investment ($ million) *(cont.)*

	FDI inflows						FDI outflows						FDI inflows / GFCF					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
Mauritania	4	1	0	1	9	30	0	0	0	0	0	0	2.1	0.5	0.0	0.5	3.3	12.3
Mauritius	**37**	**55**	**12**	**49**	**277**	**12**	**3**	**3**	**14**	**6**	**13**	**2**	**3.6**	**4.6**	**1.2**	**4.6**	**24.5**	**1.1**
Morocco	**357**	**1079**	**333**	**850**	**201**	**2658**	**30**	**9**	**20**	**12**	**59**	**92**	**5.0**	**15.6**	**4.2**	**10.4**	**2.6**	**34.4**
Mozambique	**73**	**64**	**235**	**382**	**139**	**255**	**0**	**0**	**0**	**0**	**0**	**0**	**12.1**	**9.0**	**24.5**	**25.5**	**10.5**	**19.3**
Namibia	129	84	77	111	153	99	-22	0	-1	-2	9	-1	15.6	11.5	9.5	13.5	18.9	13.0
Niger	20	25	9	0	19	13	18	8	10	0	10	7	10.8	12.8	3.9	0.0	10.0	5.9
Nigeria	**1593**	**1539**	**1051**	**1005**	**930**	**1104**	**42**	**58**	**107**	**92**	**85**	**94**	**31.9**	**25.5**	**12.3**	**11.3**	**12.0**	**12.7**
Rwanda	2	3	7	2	9	9	1	1	0	0	0	0	1.0	1.2	2.4	0.6	2.8	2.9
São Tomé and Principe	0	0	0	1	2	1	0	0	0	0	0	0	0.0	0.0	0.0	5.3	9.8	4.1
Senegal	**7**	**176**	**71**	**136**	**88**	**125**	**2**	**0**	**10**	**6**	**26**	**14**	**0.9**	**25.4**	**8.7**	**14.8**	**11.2**	**16.5**
Seychelles	30	54	55	60	56	34	13	10	3	9	7	11	15.0	34.2	26.6	31.3	30.1	16.1
Sierra Leone	19	10	-1	6	5	4	0	0	0	0	0	0	18.3	48.6	-2.8	16.7	9.9	7.1
Somalia	1	1	0	-1	0	0	0	0	0	0	0	0	0.5	0.5	0.0	-0.5	0.0	0.0
South Africa	**818**	**3817**	**561**	**1502**	**888**	**6653**	**1044**	**2351**	**1779**	**1580**	**271**	**-3334**	**3.5**	**15.5**	**2.5**	**7.4**	**4.7**	**39.7**
Sudan	0	98	371	371	392	574	0	0	0	0	0	0	0.0	7.5	26.2	29.0	28.1	37.1
Swaziland	22	-15	152	100	-19	69	-11	-10	24	10	-19	4	8.4	-5.3	50.0	38.7	-6.8	28.1
Tanzania	**149**	**158**	**172**	**183**	**193**	**224**	**0**	**0**	**0**	**0**	**0**	**0**	**13.7**	**13.8**	**12.8**	**13.8**	**12.2**	**15.3**
Togo	27	23	42	70	57	67	13	4	22	41	16	26	12.3	11.8	17.3	30.7	26.2	27.0
Tunisia	**351**	**365**	**668**	**368**	**779**	**486**	**2**	**9**	**2**	**3**	**2**	**0**	**7.7**	**7.8**	**13.5**	**7.0**	**15.2**	**9.3**
Uganda	**121**	**175**	**210**	**222**	**254**	**229**	**11**	**15**	**20**	**-8**	**-28**	**-5**	**11.7**	**16.4**	**20.0**	**20.2**	**22.1**	**20.3**
Zambia	**117**	**207**	**198**	**163**	**122**	**72**	**0**	**0**	**0**	**0**	**0**	**0**	**25.0**	**40.0**	**37.3**	**29.6**	**20.3**	**10.0**
Zimbabwe	**81**	**135**	**444**	**59**	**23**	**5**	**51**	**28**	**9**	**9**	**8**	**4**	**5.2**	**5.8**	**46.9**	**11.9**	**19.6**	**26.4**
Africa	**5835**	**10744**	**9021**	**12821**	**8694**	**17165**	**1463**	**3826**	**2054**	**2707**	**1481**	**-2544**	**6.0**	**10.2**	**8.2**	**11.7**	**8.2**	**16.4**

Source: UNCTAD (2002), World Investment Report.

Table 11 - Aid Flows ($ million)

	ODA net total, All donors						ODA net total, DAC countries						ODA net total, Multilateral					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
Algeria	**304**	**250**	**394**	**89**	**162**	**179**	**263**	**193**	**122**	**37**	**27**	**25**	**35**	**45**	**253**	**21**	**64**	**101**
Angola	473	355	335	388	307	267	294	227	214	252	189	179	179	128	121	136	112	88
Benin	288	221	205	211	239	273	165	148	144	119	191	144	118	73	63	93	49	127
Botswana	**75**	**122**	**106**	**61**	**31**	**28**	**68**	**56**	**73**	**41**	**24**	**24**	**8**	**69**	**36**	**21**	**8**	**2**
Burkina Faso	**420**	**368**	**400**	**398**	**336**	**389**	**269**	**218**	**227**	**232**	**228**	**221**	**144**	**147**	**167**	**157**	**104**	**154**
Burundi	111	56	67	74	93	126	68	38	44	52	41	55	44	18	23	22	52	71
Cameroon	**412**	**499**	**499**	**434**	**380**	**397**	**280**	**330**	**303**	**254**	**213**	**275**	**134**	**171**	**198**	**183**	**169**	**125**
Cape Verde	117	111	130	137	94	76	77	68	85	89	70	49	36	43	45	48	25	28
Central African Republic	170	91	120	118	75	74	121	61	57	59	53	48	45	30	63	59	22	26
Chad	296	228	168	188	131	178	122	96	75	64	53	73	171	126	88	116	77	105
Comoros	39	27	35	21	19	28	22	15	19	13	11	10	17	12	16	8	8	16
Congo	166	158	125	132	184	236	106	105	80	87	103	143	57	44	43	45	81	92
Congo Democratic Republic	429	270	66	142	33	71	395	260	60	121	23	30	35	10	6	20	10	41
Côte d'Ivoire	**965**	**446**	**967**	**448**	**352**	**181**	**449**	**233**	**490**	**366**	**250**	**159**	**515**	**213**	**477**	**81**	**101**	**22**
Djibouti	97	85	81	75	71	54	71	62	62	55	42	28	21	19	17	19	20	26
Egypt	**2 199**	**1 985**	**1 955**	**1 582**	**1 328**	**1 254**	**1 933**	**1 497**	**1 472**	**1 298**	**1 139**	**1 090**	**212**	**389**	**268**	**211**	**136**	**102**
Equatorial Guinea	31	24	22	20	21	13	23	18	18	15	18	13	8	6	4	6	3	1
Eritrea	159	123	167	149	176	278	128	81	98	80	112	151	29	26	38	50	55	124
Ethiopia	**818**	**579**	**660**	**643**	**693**	**1 067**	**448**	**374**	**365**	**325**	**379**	**367**	**369**	**198**	**282**	**303**	**298**	**672**
Gabon	**127**	**39**	**45**	**48**	**12**	**7**	**113**	**30**	**37**	**34**	**- 12**	**- 8**	**15**	**11**	**9**	**13**	**23**	**15**
Gambia	37	39	39	34	49	51	17	17	13	13	15	13	22	23	25	19	32	35
Ghana	**651**	**494**	**702**	**609**	**609**	**651**	**349**	**292**	**375**	**356**	**385**	**396**	**303**	**189**	**325**	**250**	**222**	**252**
Guinea	299	381	359	238	153	251	135	126	148	111	93	120	143	222	187	109	58	132
Guinea Bissau	181	124	96	52	80	59	125	59	65	32	42	30	52	66	31	20	39	28
Kenya	**597**	**448**	**415**	**310**	**512**	**437**	**346**	**301**	**276**	**254**	**293**	**270**	**248**	**145**	**138**	**53**	**214**	**161**
Lesotho	104	92	61	31	37	54	49	45	33	26	22	29	51	40	30	7	16	26
Liberia	173	76	72	94	68	33	112	31	31	45	24	16	58	44	41	49	44	17
Libya	8	7	7	7			2	2	4	3			6	5	3	4		
Madagascar	357	834	481	359	322	354	230	549	334	192	139	138	127	284	148	166	185	217
Malawi	492	344	435	447	446	401	264	174	204	228	269	196	228	171	230	214	171	194
Mali	**491**	**429**	**347**	**354**	**360**	**350**	**298**	**257**	**236**	**237**	**300**	**209**	**201**	**178**	**117**	**117**	**61**	**128**

Table 11 - Aid Flows ($ million) *(cont.)*

	ODA net total, All donors						ODA net total, DAC countries						ODA net total, Multilateral					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
Mauritania	272	238	165	219	212	262	99	97	64	89	82	81	185	154	108	125	129	182
Mauritius	20	43	42	42	20	22	- 1	3	20	5	12	8	22	30	23	37	7	6
Morocco	650	464	530	679	419	516	391	215	251	333	293	342	233	217	249	316	130	140
Mozambique	888	948	1 040	805	877	934	552	622	713	593	624	720	333	328	330	213	254	210
Namibia	188	166	181	179	153	107	136	123	129	117	97	77	51	42	51	60	55	28
Niger	255	333	292	187	211	248	163	181	145	120	106	114	91	141	146	66	105	134
Nigeria	190	200	204	152	185	184	47	52	34	53	84	108	143	149	170	96	100	78
Rwanda	467	230	350	373	322	285	252	179	209	181	175	149	213	50	141	192	146	136
São Tomé and Principe	47	33	28	28	35	38	29	21	18	19	18	22	19	12	10	8	17	16
Senegal	580	423	501	535	423	418	392	292	289	416	288	224	177	122	211	115	140	195
Seychelles	19	17	24	13	18	14	8	6	17	5	3	8	8	6	6	6	8	5
Sierra Leone	184	119	106	74	182	332	67	41	53	60	116	167	113	76	51	13	67	163
Somalia	88	81	80	115	104	144	40	46	42	76	56	88	49	34	38	39	47	41
South Africa	364	496	514	541	488	426	312	415	421	386	354	313	46	81	92	153	132	111
Sudan	220	139	209	243	225	166	118	86	150	159	90	108	101	52	59	58	36	49
Swaziland	33	28	35	29	13	29	21	16	17	15	3	4	10	10	14	14	10	22
Tanzania	877	945	1 000	990	1 022	1 215	605	569	769	613	779	944	274	373	228	376	246	277
Togo	157	125	128	71	70	46	97	76	66	47	52	28	62	51	61	21	16	14
Tunisia	124	194	150	253	223	377	42	70	102	102	150	184	121	144	78	161	72	193
Uganda	676	813	647	590	819	774	370	439	384	357	578	386	297	371	263	232	236	385
Zambia	610	610	349	624	795	365	354	367	257	340	486	274	255	243	93	283	309	90
Zimbabwe	371	336	262	245	178	158	281	222	216	219	193	149	93	116	46	26	- 14	13
Africa	20 005	17 997	17 682	16 025	15 687	16 183	12 835	11 383	11 219	10 291	10 343	10 037	7 048	6 374	6 150	5 485	5 045	5 868

Note: ODA : Overseas development assistance.
DAC : Development Assistance Committee of OECD
Source: OECD (2002), Geographical Distribution on Financial Flows to AID Recipients.

Table 12 - External Debt Indicators

Country	Stock of total external debt ($ million, current prices)						Stock of total external debt / GNP (%)		Long-term debt /total debt (%)	Distribution of long-term debt (%)			Total debt service paid / exports of goods and services (%)	
										Multilateral	Bilateral	Private		
	1996	1997	1998	1999	2000	2001	1996	2001	2001	2001			1996	2001
Algeria	**33 421**	**30 890**	**30 665**	**28 005**	**25 002**	**22 995**	**75.5**	**41.6**	**6.8**	**...**	**...**	**...**	**27.8**	**..**
Angola	10 425	9 839	11 223	10 915	10 502	9 248	261.5	168.0	91.8	9.8	32.5	57.8	17.9	13.6
Benin	1 594	1 629	1 651	1 315	841	884	73.7	38.0	...	...	...	...	9.3	11.8
Botswana	**614**	**562**	**516**	**649**	**738**	**850**	**12.6**	**14.4**	**0.0**	**71.8**	**27.3**	**0.9**	**5.2**	**..**
Burkina Faso	**1 294**	**1 297**	**1 405**	**1 452**	**1 533**	**1 533**	**52.4**	**57.4**	**...**	**...**	**...**	**...**	**11.7**	**23.3**
Burundi	1 127	1 066		1 126	1 131	1 141	127.1	145.9	132.0	69.8	8.6	21.6	53.7	...
Cameroon	**9 640**	**9 368**	**9 930**	**8 142**	**7 708**	**6 464**	**113.2**	**79.8**	**109.0**	**26.2**	**63.0**	**10.7**	**24.7**	**24.1**
Cape Verde	202	207	244	285	293	301	40.8	52.2	100.0	74.0	25.9	0.1	3.8	15.2
Central African Republic	933	883	924	878	853	829	88.9	82.3	135.9	58.2	15.1	26.7	6.8	19.4
Chad	997	1 026	1 092	944	1 083	1 192	62.5	74.3	...	...	...	...	10.3	17.5
Comoros	206	206	203	190	225	228	96.2	122.5*	94.3	68.3	31.7	0.0	2.5	49.8
Congo	5 241	5 071	5 119	5 460	5 596	5 461	384.6	335.0	100.0	10.5	79.2	10.3	20.8	30
Congo. Democratic Republic	12 840	12 341	13 187	11 999	11 929	...	249.8	...	...	...	...	...	2.7	..
Côte d Ivoire	**19 524**	**15 609**	**14 852**	**14 816**	**14 024**	**14 094**	**196.6**	**162.9**	**114.4**	**40.5**	**35.6**	**23.8**	**27.2**	**38.5**
Djibouti	296	274	288	280	...	...	58.0	49.3*	...	...	...	...	5.3	..
Egypt	**31 300**	**29 850**	**31 965**	**29 771**	**28 988**	**28 124**	**45,9**	**28,5**	**89,2**	**15,4**	**83,5**	**1,1**	**12,7**	**8,4**
Equatorial Guinea	282	283	306	201	195	190	138,6	-144,7	61,4	...	...	...	4,4	39,9
Eritrea	44	76	151	273	312	304	5,8	45,0	...	...	...	...	0	4
Ethiopia	**10 079**	**10 079**	**10 351**	**5 544**	**5 481**	**5 590**	**168,9**	**88,9**	**98,6**	**56,2**	**41,9**	**1,9**	**42,1**	**28,1**
Gabon	**4 311**	**4 278**	**4 425**	**3 204**	**3 272**	**2 556**	**88,2**	**56,2**	**126,4**	**18,0**	**73,9**	**8,1**	**11**	**16,7**
Gambia The	453	425	459	432	447	441	117,5	121,3	115,6	83,8	16,2	0,0	13,5	7,6
Ghana	**6 440**	**6 346**	**6 883**	**6 202**	**5 945**	**6 225**	**94.9**	**122.0**	**99.4**	**65.3**	**31.9**	**2.8**	**21.2**	**16.8**
Guinea	3 240	3 519	3 546	3 017	2 992	2 961	85.9	110.4	94.2	62.2	35.4	2.4	15.4	18.5
Guinea-Bissau	937	921	970	933	938	674	371.9	336.5	93.2	64.4	35.6	0.0	39.4	65.2
Kenya	**6 931**	**6 603**	**6 943**	**6 558**	**6 343**	**6 029**	**76.7**	**58.9**	**83.5**	**60.7**	**33.7**	**5.6**	**27.6**	**21.8**
Lesotho	670	660	692	686	721	705	50.2	81.5	99.0	76.6	15.0	8.4	5.3	18.3
Liberia	2 107	2 012	2 103	2 077	...	...	...	...	...	...	...	...	..	..
Libya	...	...	...	...	...	...	...	...	...	...	...	...	..	..
Madagascar	4 146	4 109	4 394	4 354	4 249	4 147	108.0	92.8	...	...	...	...	10.3	11.5
Malawi	2 315	2 229	2 444	2 589	2 509	2 642	96.7	140.1	99.0	90.3	9.0	0.7	16.8	19.1
Mali	**3 006**	**3 142**	**3 202**	**3 018**	**3 084**	**3 103**	**117.0**	**122.3**	**97.3**	**65.6**	**34.3**	**0.1**	**18.6**	**11.8**

Table 12 - External Debt Indicators *(cont.)*

Country	Stock of total external debt ($ million, current prices) 1996	1997	1998	1999	2000	2001	Stock of total external debt / GNP (%) 1996	2001	Long-term debt /total debt (%) 2001	Distribution of long-term debt (%) 2001 Multilateral	Bilateral	Private	Total debt service paid / exports of goods and services (%) 1996	2001
Mauritania	2 412	2 456	2 589	2 035	1 792	2 237	227.5	226.7	90.8	...	...	...	20.4	21
Mauritius	**1 818**	**2 472**	**2 482**	**2 419**	**2 342**	**...**	**42.6**	**53.2***	**...**	**...**	**...**	**...**	**7.2**	**..**
Morocco	**21 851**	**20 162**	**20 491**	**19 060**	**19 873**	**17 717**	**61.8**	**52.5**	**99.2**	**39.0**	**40.7**	**20.3**	**28**	**..**
Mozambique	**7 566**	**7 638**	**8 315**	**6 322**	**6 185**	**6 035**	**283.1**	**189.9**	**127.7**	**48.2**	**51.8**	**0.0**	**26**	**36.6**
Namibia	...	...	123	183	173	264	...	7.3	44.6	8.2	19.1	72.8	..	..
Niger	1 536	1 576	1 663	1 643	1 650	...	78.4	68.8*	...	...	...	...	16.3	..
Nigeria	**31 407**	**28 455**	**30 315**	**29 358**	**34 391**	**32 453**	**95.0**	**85.5**	**0.0**	**15.4**	**60.8**	**23.7**	**15.2**	**21.2**
Rwanda	1 043	1 111	1 226	1 302	1 263	1 282	74.9	73.8	...	...	...	...	19.7	24.1
São Tomé and Principe	230	233	252	296	269	296	571.8	697.0	90.6	70.5	29.5	0.0	28.2	46.8
Senegal	**3 663**	**3 661**	**3 847**	**3 725**	**3 595**	**3 576**	**80.2**	**78.3**	**92.4**	**60.8**	**38.9**	**0.3**	**16.6**	**15.4**
Seychelles	148	149	187	169	186	206	27.6	51.5	96.1	41.9	30.6	27.5	4.8	4.7
Sierra Leone	1 179	1 144	1 256	1 183	1 176	1 249	133.1	188.4	97.6	64.6	34.8	0.6	35.5	63.4
Somalia	2 643	2 561	2 635	2 606	...	...	...	...	...	...	...	...	..	..
South Africa	**26 050**	**25 221**	**24 712**	**24 901**	**28 867**	**28 867**	**18.5**	**22.9**	**62.1**	**0.1**	**0.0**	**99.9**	**11.6**	**12.8**
Sudan	16 972	16 326	16 843	16 132	15 875	25 600	233.2	262.5*	...	...	...	...	7.1	..
Swaziland	222	368	251	258	259	448	16.0	34.2	44.8	75.3	24.9	-0.2	3.1	2.2
Tanzania	**7 362**	**7 129**	**7 633**	**8 052**	**7 440**	**7 024**	**115.4**	**73.4**	**91.1**	**57.1**	**42.2**	**0.7**	**23.2**	**23.7**
Togo	1 472	1 327	1 448	1 382	1 352	1 324	102.3	108.6	...	...	...	...	10.7	..
Tunisia	**11 379**	**11 230**	**10 850**	**11 887**	**10 610**	**11 567**	**61.3**	**60.1**	**92.1**	**38.0**	**27.9**	**34.1**	**16.2**	**..**
Uganda	**3 675**	**3 913**	**4 016**	**3 494**	**3 602**	**3 591**	**61.2**	**61.8**	**100.0**	**83.1**	**15.8**	**1.1**	**20**	**26.4**
Zambia	**7 054**	**6 654**	**6 865**	**6 507**	**6 311**	**5 884**	**230.2**	**185.8**	**...**	**...**	**...**	**...**	**22.1**	**..**
Zimbabwe	**4 976**	**4 919**	**4 707**	**4 566**	**4 244**	**4 444**	**59.7**	**50.4**	**...**	**...**	**...**	**...**	**21**	**..**

Note: NVP: Net Present Value   * Data refer to 2000.
Sources: Sources: Global Development Finance, World Bank and Easterly (2001) How did Highly Indebted Poor Countries Become Highly Indebted? Reviewing Two Decades of Debt Relief.

Table 13 - Demographic Indicators

	Total population (thousands) 2001	Urban Population (% of total) 2001	Sex ratio (males per 100 females) 2001	Population growth rate (%) 1995-2000	Population growth rate (%) 2000-2005	Infant mortality rate (per 1000) 2000-2005	Total fertility rate 2000-2005	Mortality under age 5 (per 1000) 2000-2005	Distribution by age (%) 2000 0-14	Distribution by age (%) 2000 15-59	Distribution by age (%) 2000 60+
Algeria	**30 841**	**64**	**102**	**1.8**	**1.8**	**42.8**	**2.8**	**47**	**34.8**	**59.1**	**6.0**
Angola	13 527	34	97	2.9	3.0	117.7	7.2	201	48.2	47.3	4.5
Benin	6 446	42	97	2.7	2.8	80.6	5.7	132	46.4	49.4	4.2
Botswana	**1 554**	**54**	**93**	**1.6**	**0.5**	**67.2**	**3.9**	**142**	**42.1**	**53.4**	**4.5**
Burkina Faso	**11 856**	**20**	**94**	**2.3**	**3.0**	**86.6**	**6.8**	**146**	**48.7**	**46.5**	**4.8**
Burundi	6 502	10	95	0.9	3.0	111.5	6.8	198	47.6	48.1	4.3
Cameroon	**15 203**	**51**	**98**	**2.3**	**2.1**	**79.3**	**4.7**	**133**	**43.1**	**51.3**	**5.6**
Cape Verde	437	64	84	2.3	2.1	49.6	3.2	57	39.3	54.2	6.5
Central African Republic	3 782	41	93	2.1	1.6	93.3	4.9	156	43.0	50.9	6.1
Chad	8 135	23	97	3.2	3.1	116.1	6.7	198	46.5	48.6	4.9
Comoros	727	33	99	2.9	2.9	67.0	5.0	92	43.0	52.8	4.2
Congo	3 110	62	95	3.0	3.0	65.8	6.3	122	46.3	48.7	5.1
Congo Democratic Republic	52 522	31	97	2.6	3.3	77.2	6.7	128	48.8	46.7	4.5
Côte d'Ivoire	**16 349**	**43**	**106**	**2.1**	**2.1**	**80.8**	**4.6**	**138**	**42.1**	**52.9**	**5.0**
Djibouti	644	85	87	3.0	1.0	117.1	5.8	202	43.2	51.2	5.5
Egypt	**69 080**	**46**	**103**	**1.8**	**1.7**	**40.5**	**2.9**	**49**	**35.4**	**58.3**	**6.3**
Equatorial Guinea	470	49	97	2.7	2.8	98.8	5.9	160	43.7	50.3	6.0
Eritrea	3 816	20	98	2.7	4.2	82.4	5.3	142	43.9	51.4	4.7
Ethiopia	**64 459**	**18**	**98**	**2.5**	**2.4**	**106.1**	**6.8**	**183**	**45.2**	**50.1**	**4.7**
Gabon	**1 262**	**82**	**97**	**2.6**	**2.5**	**80.0**	**5.4**	**132**	**40.2**	**51.1**	**8.7**
Gambia	1 337	33	98	3.1	2.4	115.0	4.8	195	40.3	54.6	5.2
Ghana	**19 734**	**41**	**99**	**2.2**	**2.2**	**62.1**	**4.2**	**100**	**40.9**	**54.0**	**5.1**
Guinea	8 274	31	101	2.1	1.5	114.4	5.8	190	44.1	51.5	4.4
Guinea Bissau	1 227	24	97	2.1	2.4	121.2	6.0	208	43.5	50.9	5.6
Kenya	**31 293**	**33**	**99**	**2.3**	**1.9**	**58.7**	**4.2**	**103**	**43.5**	**52.3**	**4.2**
Lesotho	2 057	31	97	1.7	0.7	111.2	4.5	181	39.3	54.2	6.5
Liberia	3 108	48	102	7.1	5.5	79.3	6.8	112	42.7	52.8	4.5
Libya	5 408	93	110	2.1	2.2	25.2	3.3	28	33.9	60.6	5.5
Madagascar	16 437	30	99	2.9	2.8	91.5	5.7	147	44.7	50.5	4.7
Malawi	11 572	26	96	2.4	2.2	130.1	6.3	224	46.3	49.0	4.6
Mali	**11 677**	**30**	**97**	**2.7**	**2.9**	**120.5**	**7.0**	**236**	**46.1**	**48.1**	**5.7**

Table 13 - Demographic Indicators *(cont.)*

	Total population (thousands) 2001	Urban Population (% of total) 2001	Sex ratio (males per 100 females) 2001	Population growth rate (%) 1995-2000	Population growth rate (%) 2000-2005	Infant mortality rate (per 1000) 2000-2005	Total fertility rate 2000-2005	Mortality under age 5 (per 1000) 2000-2005	Distribution by age (%) 2000 0-14	Distribution by age (%) 2000 15-59	Distribution by age (%) 2000 60+
Mauritania	2 747	59	98	3.2	3.0	96.7	6.0	156	44.1	51.1	4.7
Mauritius*	**1 171**	**42**	**100**	**0.8**	**0.8**	**16.0**	**1.9**	**17**	**25.6**	**65.4**	**9.0**
Morocco	**30 430**	**54**	**100**	**1.9**	**1.8**	**42.1**	**3.0**	**52**	**34.7**	**59.0**	**6.4**
Mozambique	**18 644**	**44**	**97**	**2.3**	**1.8**	**127.7**	**5.9**	**224**	**43.9**	**50.9**	**5.1**
Namibia	1 788	31	95	2.1	1.7	64.7	4.9	121	43.7	50.6	5.6
Niger	11 227	21	100	3.5	3.6	125.7	8.0	210	49.9	46.9	3.3
Nigeria	**116 929**	**44**	**101**	**2.7**	**2.6**	**78.5**	**5.4**	**130**	**45.1**	**50.2**	**4.8**
Rwanda	7 949	6	98	8.5	2.1	119.2	5.8	196	44.3	51.5	4.2
São Tomé and Principe	140	51	...	...	...	...	...	...	...	...	...
Senegal	**9 662**	**49**	**100**	**2.5**	**2.5**	**56.8**	**5.1**	**105**	**44.3**	**51.5**	**4.2**
Seychelles	81	62	...	...	...	...	...	...	...	...	...
Sierra Leone	4 587	40	96	1.5	4.5	146.3	6.5	254	44.2	51.0	4.8
Somalia	9 157	32	98	3.6	4.2	112.7	7.3	186	48.0	48.1	3.9
South Africa	**43 792**	**47**	**98**	**1.6**	**0.8**	**59.2**	**2.9**	**101**	**34.0**	**60.3**	**5.7**
Sudan	31 809	35	101	2.1	2.3	77.7	4.5	122	40.1	54.4	5.5
Swaziland	938	30	97	2.0	0.9	91.7	4.4	171	41.6	53.1	5.3
Tanzania	**35 965**	**33**	**98**	**2.6**	**2.3**	**72.7**	**5.0**	**117**	**45.0**	**51.0**	**4.0**
Togo	4 657	35	98	3.3	2.6	74.8	5.4	124	44.3	50.9	4.9
Tunisia	**9 562**	**67**	**102**	**1.1**	**1.1**	**25.5**	**2.1**	**30**	**29.7**	**61.9**	**8.4**
Uganda	**24 023**	**14**	**99**	**2.9**	**3.2**	**93.9**	**7.1**	**159**	**49.2**	**47.0**	**3.8**
Zambia	**10 649**	**35**	**99**	**2.5**	**2.1**	**79.6**	**5.7**	**143**	**46.5**	**48.9**	**4.5**
Zimbabwe	**12 852**	**33**	**99**	**1.9**	**1.7**	**55.0**	**4.5**	**108**	**45.2**	**50.1**	**4.7**
Africa	**811 605**	**38.0**	**99**								

Note: * Including Agalega, Rodrigues and Saint Brandon.
Source: United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2000 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%
Algeria	**1995**	**30.3**	**14.7**	**22.6**	**1995**	**<2**	**15.1**	**1995**	**35.3**		
Angola											
Benin	1995			33.0							
Botswana	**1993-94**	**55.0**	**29.0**	**47.0**	**1985-86**	**33.3**	**61.4**	**1986**	**54.2**		
Burkina Faso	**1998**	**50.7**	**15.9**	**45.3**	**1994**	**61.2**	**85.8**	**1994**	**48.2**	**2.2**	**39.5**
Burundi	1990			36.2				1992	49.0		
Cameroon	**2001**	**52.1**	**17.9**	**40.2**				**1996**	**42.0**		
Cape Verde											
Central African Republic					1993	66.6	84.0	1993	61.3		
Chad	1996	67.0	63.0	64.0							
Comoros								1995	33.9		
Congo											
Congo Democratic Republic											
Côte d'Ivoire	**1998**	**41.8**	**23.4**	**33.6**	**1995**	**12.3**	**49.4**	**1995**	**36.7**	**3.1**	**28.8**
Djibouti	1996	86.5		45.1				1995	38.6		
Egypt	**1996**	**23.3**	**22.5**	**22.9**	**1995**	**3.1**	**52.7**	**1995**	**28.9**	**4.4**	**25.0**
Equatorial Guinea											
Eritrea	1994			53.0							
Ethiopia	**1995-96**	**47.0**	**33.0**	**45.0**	**1995**	**31.3**	**76.4**	**1995**	**40.0**	**3.0**	**33.7**
Gabon	**1994**			**62***	**1994**	**23.0**					
Gambia	1992			64.0				1992	47.8		
Ghana	**1998-99**	**51.6**	**22.8**	**42.6**	**1998**	**38.8**	**74.6**	**1998**	**39.6**	**2.4**	**29.5**
Guinea	1994			40.0				1994	40.3		
Guinea Bissau	1991			48.7				1991	56.2		
Kenya	**1997**	**51.0**	**49.0**	**52.0**	**1994**	**26.5**	**62.3**	**1994**	**44.5**	**1.8**	**34.9**
Lesotho	1993	53.9	27.8	49.2	1993	43.1	65.7	1987	56.0		
Liberia											
Libya											
Madagascar	1994	77.0	47.0	70.0	1993	60.2	88.8	1997	46.0		
Malawi	1991			54.0				1993	62.0		
Mali	**1999**	**71.0**	**31.0**	**64.2**	**1994**	**72.8**	**90.6**	**1994**	**50.5**	**1.8**	**40.4**

Table 14 - Poverty and Income Distribution Indicators *(cont.)*

	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%
Mauritania	1990			57.0	1995	3.8	22.1	1995	37.3		
Mauritius	**1992**			**10.6**				**1991**	**36.7**		
Morocco	**1999**	**27.2**	**12.0**	**19.0**	**1990-91**	**<2**	**7.5**	**1999**	**39.5**	**2.6**	**30.9**
Mozambique	**1996-97**	**71.2**	**62.0**	**69.4**	**1996**	**37.9**	**78.4**	**1997**	**39.6**	**2.5**	**31.7**
Namibia					1993	34.9	55.8	1998	70**		
Niger	1993	66.0	52.0	63.0	1995	61.4	85.3	1995	50.5		
Nigeria	**1993**	**36.4**	**30.4**	**34.1**	**1997**	**70.2**	**90.8**	**1997**	**50.6**	**1.6**	**40.8**
Rwanda	1993			51.2	1983-85	35.7	84.6	1985	28.9		
São Tomé and Principe											
Senegal	**2001**			**53.9**	**1995**	**26.3**	**67.8**	**1995**	**41.3**	**2.6**	**33.5**
Seychelles								1984	47.0		
Sierra Leone	1989	76.0	53.0	68.0	1989	57.0	74.5	1989	62.9		
Somalia											
South Africa	**1993**				**1993**	**11.5**	**35.8**	**1994**	**59.3**	**1.1**	**45.9**
Sudan											
Swaziland	1995			40.0				1993	60.9		
Tanzania	**1991**			**51.1**	**1993**	**19.9**	**59.7**	**1993**	**38.2**	**2.8**	**30.1**
Togo	1989			32.3							
Tunisia	**1990**	**21.6**	**8.9**	**14.1**	**1990**	**<2**	**11.6**	**1995**	**41.7**		
Uganda	**1999-2000**	**10.3**	**39.1**	**35.2**	**1992**	**36.7**	**77.2**	**1996**	**37.4**	**3.0**	**29.8**
Zambia	**1998**	**83.0**	**56.0**	**73.0**	**1996**	**72.6**	**91.7**	**1998**	**52.6**		
Zimbabwe	**1995-96**	**86.4**	**53.4**	**75.6**	**1990-91**	**36.0**	**64.2**	**1990**	**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 income distribution.

Sources: Domestic authorities and World Bank (2001), World Development Report 2002.

Table 15 - Basic Health Indicators

	Life expectancy at birth (years) 1995-2000	With AIDS 2000-2005	Without AIDS 2000-2005	Undernourishment prevalence (%) 1998-2000	Food availability (Kcal/person/day) 1998-2000	Total health expenditure as % of GDP 1998	Per capita ($) 1998	Distribution Public (%) 1998	Distribution Private (%) 1998	Public health exp. (% of total government expenditure) 1998
Algeria	**...**	**...**	**...**	**6**	**2 956**	**4.1**	**71**	**80.2**	**19.8**	**12.4**
Angola	44.6	45.8	48.5	50	1 894	4.6	24	53.8	46.2	6.4
Benin	53.5	54.0	57.0	13	2 569	3.2	12	49.4	50.6	6.3
Botswana	**44.4**	**36.1**	**69.7**	**25**	**2 242**	**3.5**	**120**	**70.7**	**29.3**	**5.5**
Burkina Faso	**45.3**	**48.1**	**55.9**	**23**	**2 316**	**4.0**	**9**	**67.7**	**32.3**	**10.6**
Burundi	40.6	40.6	51.6	69	1 615	2.3	3	41.2	58.8	3.9
Cameroon	**50.0**	**50.0**	**58.6**	**25**	**2 272**	**2.7**	**17**	**30.9**	**69.1**	**5.6**
Cape Verde	...	...	...	...	3 281	2.6	35	69.0	31.0	4.3
Central African Republic	44.3	44.3	55.2	44	1 952	2.4	7	48.9	51.1	3.8
Chad	45.2	46.3	48.8	32	2 156	2.9	7	78.6	21.4	12.6
Comoros	...	...	...	...	1 766	4.9	15	71.8	28.2	9.4
Congo	50.9	51.6	58.9	32	2 166	3.0	20	67.2	32.8	4.3
Congo Democratic Republic	50.5	52.1	58.2	73	1 592	1.7	27	74.1	25.9	13.5
Côte d'Ivoire	**47.7**	**47.9**	**58.6**	**15**	**2 593**	**2.9**	**22**	**46.7**	**53.3**	**6.0**
Djibouti	45.5	40.6	52.4	...	2 052	4.9	41	46.3	53.7	5.9
Egypt	**66.3**	**68.3**	**...**	**4**	**3 322**	**4.6**	**56**	**30.8**	**69.2**	**4.4**
Equatorial Guinea	50.0	...	...	...	...	4.2	44	59.4	40.6	8.3
Eritrea	51.5	52.4	55.7	58	1 706	5.4	10	66.1	33.9	4.5
Ethiopia	**44.5**	**43.3**	**53.0**	**44**	**1 877**	**5.2**	**6**	**46.6**	**53.4**	**9.5**
Gabon	**52.4**	**52.9**	**57.5**	**8**	**2 549**	**3.0**	**122**	**66.7**	**33.3**	**6.4**
Gambia	45.4	47.1	49.0	21	2 401	3.2	11	78.2	21.8	11.9
Ghana	**56.3**	**57.2**	**62.0**	**12**	**2 647**	**4.3**	**18**	**54.0**	**46.0**	**9.0**
Guinea	...	...	...	32	2 234	3.6	17	60.4	39.6	12.9
Guinea Bissau	44.1	45.4	47.8	...	2 313	4.0	10	65.1	34.9	1.9
Kenya	**52.2**	**49.3**	**65.9**	**44**	**1 956**	**7.6**	**30**	**28.1**	**71.9**	**7.8**
Lesotho	51.2	40.2	63.7	26	2 296	6.0	27	78.3	21.7	10.8
Liberia	48.1	55.6	59.3	39	2 143	2.4	1	66.0	34.0	7.7
Libya	...	...	...	...	3 302	3.9	344	47.6	52.4	2.7
Madagascar	...	...	...	40	2 005	2.3	6	57.8	42.2	7.7
Malawi	40.7	39.3	53.2	33	2 156	7.2	12	50.3	49.7	14.5
Mali	**50.9**	**52.1**	**54.7**	**20**	**2 395**	**4.4**	**11**	**46.5**	**53.5**	**8.3**

Table 15 - Basic Health Indicators *(cont.)*

	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	1998-2000	1998-2000	1998	1998	1998	1998	1998
Mauritania	...	...	...	12	2 657	3.3	13	69.1	30.9	10.5
Mauritius	**70.7***	**72***	**...**	**5**	**2 970**	**3.4**	**117**	**51.8**	**48.2**	**7.1**
Morocco	**66.6**	**...**	**...**	**7**	**3 006**	**4.4**	**54**	**30.0**	**70.0**	**3.9**
Mozambique	**40.6**	**38.0**	**49.0**	**55**	**1 914**	**3.8**	**8**	**57.7**	**42.3**	**11.1**
Namibia	45.1	44.3	64.5	9	2 597	8.2	145	54.3	45.7	12.0
Niger	...	...	...	36	2 097	3.0	5	48.6	51.4	5.5
Nigeria	**51.3**	**52.1**	**58.1**	**7**	**2 840**	**2.1**	**24**	**39.4**	**60.6**	**5.1**
Rwanda	39.4	40.9	50.6	40	2 022	5.0	16	37.2	62.8	9.8
São Tomé and Principe	...	...	...	...	2 292	2.9	8	67.9	32.1	3.6
Senegal	**...**	**54.3**	**...**	**25**	**2 257**	**4.5**	**23**	**58.4**	**41.6**	**13.1**
Seychelles	...	...	...	...	2 416	6.9	509	69.4	30.6	7.9
Sierra Leone	37.3	40.5	43.0	47	1 978	2.8	5	40.4	59.6	7.3
Somalia	...	...	...	71	1 602	2.0	4	62.4	37.6	4.5
South Africa	**56.7**	**47.4**	**65.8**	**...**	**2 881**	**8.7**	**275**	**43.6**	**56.4**	**11.6**
Sudan	...	...	...	21	2 358	4.2	121	24.1	75.9	4.4
Swaziland	50.8	38.1	62.7	12	2 568	3.7	51	72.0	28.0	8.0
Tanzania	**51.1**	**51.1**	**59.2**	**47**	**1 916**	**4.9**	**10**	**48.5**	**51.5**	**14.9**
Togo	51.3	52.2	59.2	23	2 370	2.4	9	50.0	50.0	4.3
Tunisia	**...**	**...**	**...**	**...**	**3 362**	**5.3**	**115**	**41.3**	**58.7**	**7.0**
Uganda	**41.9**	**46.0**	**54.2**	**21**	**2 330**	**3.5**	**11**	**38.2**	**61.8**	**9.3**
Zambia	**40.5**	**42.2**	**59.6**	**50**	**1 898**	**5.6**	**20**	**57.3**	**42.7**	**12.6**
Zimbabwe	**42.9**	**42.9**	**68.5**	**38**	**2 110**	**10.8**	**60**	**55.9**	**44.1**	**17.0**

Note: * Including Agalega, Rodrigues and Saint Brandon

Sources: 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, 2002, The State of Food Insecurity in the World 2002.
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				
Algeria	**58.4**	**58.4**	**58.3**	**94**	**98**	**88**	**73**	**90**	**47**	**1995**	**84.6**	**297.8**
Angola	36.9	36.2	37.6	38	34	40	44	70	30	1997	7.7	114.5
Benin	42.5	43.1	41.9	63	55	55	23	46	6	1995	5.7	20.4
Botswana	**37.3**	**38.1**	**36.5**	**...**	**100**	**...**	**...**	**...**	**...**	**1994**	**23.8**	**219.1**
Burkina Faso	**34.8**	**35.4**	**34.1**	**...**	**84**	**...**	**29**	**88**	**16**	**1995**	**3.4**	**19.6**
Burundi	33.4	33.9	32.9	...	96	...	...	79	...	...	...	...
Cameroon	**40.4**	**40.9**	**39.9**	**62**	**82**	**42**	**92**	**99**	**85**	**1996**	**7.4**	**36.7**
Cape Verde	58.4	56.9	60.0	74	64	89	71	95	32	1996	17.1	55.6
Central African Republic	34.1	34.7	33.6	60	80	46	31	43	23	1995	3.5	8.8
Chad	39.3	38.6	39.9	27	31	26	29	81	13	1994	3.3	14.7
Comoros	46.0	46.2	45.8	96	98	95	98	98	98	1997	7.4	34.1
Congo	42.6	42.5	42.8	51	71	17	...	14	...	1995	25.1	185.1
Congo Democratic Republic	34.4	34.4	34.4	45	89	26	20	53	6	1996	6.9	44.2
Côte d'Ivoire	**39.0**	**39.1**	**38.9**	**77**	**90**	**65**	**...**	**...**	**...**	**1996**	**9.0**	**31.2**
Djibouti	35.1	35.6	34.6	100	100	100	91	99	50	1996	14.0	74.0
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
Eritrea	41.0	41.4	40.5	66	63	42	13	66	1	1996	3.0	16.0
Ethiopia	**35.4**	**35.7**	**35.1**	**58**	**77**	**13**	**15**	**58**	**6**	**...**	**...**	**...**
Gabon	**46.6**	**46.8**	**46.5**	**70**	**73**	**55**	**21**	**25**	**4**	**...**	**...**	**...**
Gambia	46.9	47.3	46.6	62	80	53	37	41	35	1997	3.5	12.5
Ghana	**46.7**	**46.5**	**46.9**	**64**	**87**	**49**	**63**	**62**	**64**	**1996**	**6.2**	**72.0**
Guinea	40.3	40.4	40.1	48	72	36	58	94	41	1995	13.0	55.7
Guinea Bissau	36.6	36.7	36.4	49	29	55	47	88	34	1996	16.6	109.4
Kenya	**40.7**	**41.2**	**40.1**	**49**	**87**	**31**	**86**	**96**	**81**	**1995**	**13.2**	**90.1**
Lesotho	35.3	36.1	34.5	91	98	88	92	93	92	1995	5.4	60.1
Liberia	37.8	38.2	37.4	...	...	...	...	...	...	1997	2.3	5.9
Libya	58.5	58.4	58.6	72	72	68	97	97	96	1997	128.0	360.0
Madagascar	42.9	43.2	42.6	47	85	31	42	70	30	1996	10.7	21.6
Malawi	30.9	31.4	30.5	57	95	44	77	96	70	...	...	...
Mali	**34.5**	**34.8**	**34.1**	**65**	**74**	**61**	**69**	**93**	**58**	**1994**	**4.7**	**13.1**

Table 16 - Sanitary Conditions *(cont.)*

	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				
Mauritania	41.5	42.1	40.8	37	34	40	33	44	19	1995	13.8	62.4
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**	**...**	**...**	**...**
Namibia	35.6	36.5	34.7	77	100	67	41	96	17	1997	29.5	168.0
Niger	33.1	33.9	32.4	59	70	56	20	79	5	1997	3.5	22.9
Nigeria	**41.6**	**42.1**	**41.1**	**57**	**81**	**39**	**63**	**85**	**45**	**1992**	**18.5**	**66.1**
Rwanda	31.9	32.0	31.8	41	60	40	8	12	8	...	...	...
São Tomé and Principe	50.0	50.3	49.7	...	...	...	...	...	...	1996	46.7	127.4
Senegal	**44.9**	**45.2**	**44.5**	**78**	**92**	**65**	**70**	**94**	**48**	**1995**	**7.5**	**22.1**
Seychelles	58.7	57.0	60.4	...	...	...	...	...	...	1996	132.4	467.6
Sierra Leone	29.5	29.7	29.3	28	23	31	28	23	31	1996	7.3	33.0
Somalia	35.1	35.5	34.7	...	...	...	...	...	...	1997	4.0	20.0
South Africa	**43.2**	**43.0**	**43.5**	**86**	**92**	**80**	**86**	**99**	**73**	**1996**	**56.3**	**471.8**
Sudan	45.1	45.7	44.4	75	86	69	62	87	48	1996	9.0	58.0
Swaziland	38.2	38.8	37.6	...	...	...	...	...	...	1996	15.1	...
Tanzania	**38.1**	**38.6**	**37.5**	**54**	**80**	**42**	**90**	**98**	**86**	**1995**	**4.1**	**85.2**
Togo	42.7	42.7	42.7	54	85	38	34	69	17	1995	7.6	29.7
Tunisia	**61.4**	**61.0**	**61.7**	**...**	**...**	**...**	**...**	**...**	**...**	**1997**	**70.0**	**286.0**
Uganda	**35.7**	**36.2**	**35.2**	**50**	**72**	**46**	**75**	**96**	**72**	**1996**	**...**	**18.7**
Zambia	**33.0**	**33.7**	**32.3**	**64**	**88**	**48**	**78**	**99**	**64**	**1995**	**6.9**	**113.1**
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) 2001	People living with HIV/AIDS (000)	HIV/AIDS Adult prevalence (%) 2001	AIDS orphans cumulative (000)	Malaria notified cases: Survey year	Malaria notified cases: Notified cases	Tuberculosis notified cases 2000	Measles Incidence 2001	Vaccination coverage (%) 2001: MCV	Vaccination coverage (%) 2001: DTP3
Algeria	**30 841**	**...**	**0.1**	**...**	**1997**	**197**	**18 294**	**2 686**	**83**	**89**
Angola	13 527	320	5.5	100	1995	156 603	16 062	9 046	72	41
Benin	6 446	110	3.8	34	1997	670 857	2 706	5 859	81	84
Botswana	**1 554**	**300**	**39.4**	**69**	**1995**	**17 599**	**9 292**	**1**	**77**	**74**
Burkina Faso	**11 856**	**380**	**7.5**	**270**	**1995**	**501 020**	**2 310**	**4 174**	**69**	**68**
Burundi	6 502	330	11.4	240	1995	932 794	6 365**	...	54	64
Cameroon	**15 203**	**860**	**12.2**	**210**	**1997**	**645 309**	**5 251**	**23 934**	**47**	**43**
Cape Verde	437	...	...	...	1997	20	205	0	72	78
Central African Republic	3 782	220	12.8	110	...	...	5 003**	2 837	29	23
Chad	8 135	130	3.6	72	1995	343 186	4 710**	24 908	36	27
Comoros	727	...	...	...	1996	15 509	120	...	70	70
Congo	3 110	99	7.3	78	1997	9 491	9 239	2 152	35	31
Congo Democratic Republic	52 522	1 100	5.0	930	...	...	60 627	8 072	11	32
Côte d'Ivoire	**16 349**	**690**	**8.8**	**420**	**1997**	**983 089**	**12 943**	**5 790**	**61**	**57**
Djibouti	644	...	...	...	1997	4 314	3 971	79	49	53
Egypt	**69 080**	**...**	**0.0**	**...**	**1997**	**11**	**10 762**	**2 150**	**97**	**99**
Equatorial Guinea	470	6	2.6	...	1995	12 530	416***	1 339	52	32
Eritrea	3 816	49	2.8	24	...	...	6 652	204	65	65
Ethiopia	**64 459**	**1 900**	**6.6**	**990**	**1994**	**358 469**	**91 101**	**2 366**	**37***	**51**
Gabon	**1 262**	**...**	**...**	**...**	**1997**	**35 842**	**1 598****	**5 129**	**50**	**70**
Gambia	1 337	8	1.2	5	...	...	1 514**	226	90	96
Ghana	**19 734**	**330**	**3.4**	**200**	**1997**	**2 227 762**	**10 933**	**13 476**	**75**	**76**
Guinea	8 274	...	...	...	1997	802 210	5 440	7 408	59	57
Guinea Bissau	1 227	16	2.9	4	...	...	1 273	126	48	47
Kenya	**31 293**	**2 300**	**15.0**	**890**	**1995**	**4 343 190**	**64 159**	**11 304**	**74**	**80**
Lesotho	2 057	330	33.5	73	...	...	9 746	217	63	72
Liberia	3 108	...	...	...	...	...	1 753***	1 379	78	62
Libya	5 408	...	0.2	...	...	...	1 341	633	93	94
Madagascar	16 437	21	0.3	6	...	...	14 661***	9 357	29	37
Malawi	11 572	780	15.2	470	...	...	23 606	150	81	90
Mali	**11 677**	**100**	**2.0**	**70**	**1997**	**384 907**	**4 216**	**4 464**	**37**	**51**

Table 17 - Major Diseases *(cont.)*

	Total population (000) 2001	People living with HIV/AIDS (000)	HIV/AIDS Adult prevalence (%) 2001	AIDS orphans cumulative (000)	Malaria notified cases: Survey year	Malaria notified cases: Notified cases	Tuberculosis notified cases 2000	Measles Incidence 2001	Vaccination coverage (%) 2001: MCV	Vaccination coverage (%) 2001: DTP3
Mauritania	2 747	...	...	...	...	...	3 067	1 398	58	61
Mauritius	**1 171**	**1**	**0.1**	**...**	**1997**	**65**	**160**	**0**	**90**	**93**
Morocco	**30 430**	**...**	**0.1**	**...**	**2000**	**59**	**28 852**	**2 548**	**96**	**96**
Mozambique	**18 644**	**1 000**	**11.7**	**420**	**...**	**...**	**21 158**	**7 085**	**92**	**80**
Namibia	1 788	200	24.4	47	1997	425 185	10 474	416	58	63
Niger	11 227	...	...	...	1997	978 855	4 292	61 208	51	31
Nigeria	**116 929**	**3 200**	**6.0**	**1 000**	**1997**	**616 466**	**25 821**	**168 107**	**30***	**38***
Rwanda	7 949	430	11.4	260	1997	1 210 775	6 093	896	69	77
São Tomé and Principe	140	...	...	...	...	...	97	0	75	92
Senegal	**9 662**	**24**	**0.5**	**15**	**1995**	**628 773**	**7 282****	**24 789**	**48**	**52**
Seychelles	81	150	...	...	...	...	20	0	95	96
Sierra Leone	4 587	43	7.2	42	...	...	3 760	649	53	38
Somalia	9 157	...	1.1	...	2000	10 364	5 686	3 571	35	33
South Africa	**43 792**	**4 700**	**19.9**	**660**	**1996**	**29 160**	**111 269**	**1 166**	**72**	**81**
Sudan	31 809	...	2.6	...	2000	4 332 827	24 807	4 362	80	71
Swaziland	938	150	33.3	35	...	...	5 877	49	72	77
Tanzania	**35 965**	**1 300**	**7.8**	**810**	**1997**	**1 131 655**	**54 442**	**11 847**	**86**	**87**
Togo	4 657	130	6.0	63	...	...	1 409	1 833	33	43
Tunisia	**9 562**	**...**	**...**	**...**	**...**	**...**	**2 038**	**231**	**92**	**98**
Uganda	**24 023**	**510**	**5.0**	**880**	**...**	**...**	**30 372**	**48 543**	**61**	**60**
Zambia	**10 649**	**1 000**	**21.1**	**570**	**1996**	**3 215 866**	**49 806**	**16 997**	**85***	**76***
Zimbabwe	**12 852**	**2 000**	**33.5**	**780**	**1995**	**330 002**	**51 918**	**529**	**68**	**75**
Africa	**811 605**	**25 216**	**7.0**	**10 848**						

Note: Last data available, *2000; **1999' ***1998.
DTP: Diphtheria, tetanus toxoids and pertussis antigen. MCV : Measles Contaning Vaccine.

Sources: Sources: HIV/AIDS: UNAIDS and WHO, Report on the Global HIV/AIDS Epidemic 2002;
Malaria notified cases : WHO, Roll Back Malaria (RBM) database;
Tuberculosis notified cases : WHO, 2002, Global Tuberculosis Control, WHO Report 2002; Vaccination coverage : WHO, 2002, Vaccine surveillance database;
Measles incidence : WHO Vaccine Preventable Diseases Monitoring System, 2002 Global Summary.

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	
Algeria	**31.2**	**21.0**	**41.5**	**10.3**	**6.0**	**14.7**	**...**
Angola	...	...	...	...	...	...	5.2*
Benin	58.4	41.7	74.3	45.7	28.4	62.8	2.6*
Botswana	**22.0**	**24.9**	**19.2**	**11.3**	**15.0**	**7.5**	**9.3***
Burkina Faso	**75.2**	**65.1**	**85.1**	**64.2**	**53.1**	**75.5**	**...**
Burundi	50.5	42.7	57.7	35.0	33.4	36.5	3.9*
Cameroon	**23.0**	**17.2**	**28.7**	**6.0**	**5.4**	**6.5**	**2.5**
Cape Verde	24.7	14.8	32.4	11.3	8.3	14.3	...
Central African Republic	51.9	39.1	63.5	31.4	23.2	39.4	...
Chad	55.8	47.0	64.2	31.7	25.3	38.0	2.0*
Comoros	39.9	32.9	46.7	41.1	34.4	47.9	3.5
Congo	18.2	11.8	24.1	2.4	1.8	3.0	5.5
Congo Democratic Republic	37.3	25.8	48.2	17.3	10.9	23.6	...
Côte d'Ivoire	**51.6**	**44.0**	**59.5**	**33.7**	**28.8**	**38.6**	**6.4**
Djibouti	34.5	23.9	44.5	15.1	10.8	19.4	...
Egypt	**43.8**	**32.7**	**55.1**	**29.5**	**23.1**	**36.2**	**4.1***
Equatorial Guinea	15.8	7.2	24.0	2.8	1.4	4.3	2.0*
Eritrea	43.3	31.8	54.4	28.9	19.2	38.5	...
Ethiopia	**60.4**	**55.6**	**65.3**	**44.0**	**37.9**	**50.1**	**...**
Gabon	**...**	**...**	**...**	**...**	**...**	**...**	**3.8***
Gambia	62.2	54.8	69.4	41.5	33.0	49.7	...
Ghana	**27.4**	**18.9**	**35.7**	**8.5**	**6.0**	**10.9**	**4.2***
Guinea	0.0	0.0	0.0	...	...	...	2.1*
Guinea Bissau	60.1	39.1	80.1	40.5	25.9	54.8	2.3
Kenya	**16.6**	**10.5**	**22.7**	**4.6**	**3.8**	**5.3**	**6.8**
Lesotho	16.2	26.9	6.1	9.2	16.9	1.4	7.9
Liberia	44.7	28.8	60.8	29.4	14.4	44.3	...
Libya	19.1	8.6	30.5	3.2	0.2	6.4	...
Madagascar	32.7	25.8	39.4	19.2	15.9	22.6	5.9*
Malawi	39.0	25.0	52.4	28.2	18.5	38.1	4.1*
Mali	**56.9**	**49.6**	**63.9**	**31.9**	**26.1**	**37.7**	**3.0***

Table 18 - Basic Education Indicators *(cont.)*

	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	
Mauritania	57.1	46.6	67.3	50.7	42.7	58.8	...
Mauritius	**15.0**	**11.9**	**18.2**	**5.9**	**6.4**	**5.4**	**3.5**
Morocco	**50.1**	**37.3**	**62.8**	**31.5**	**23.2**	**40.2**	**5.2**
Mozambique	**54.7**	**38.8**	**70.0**	**38.3**	**24.1**	**52.3**	**...**
Namibia	17.3	16.6	18.1	8.1	9.7	6.3	...
Niger	83.5	75.5	91.1	76.3	66.8	85.7	2.1*
Nigeria	**34.7**	**26.5**	**42.6**	**12.4**	**9.7**	**15.0**	**0.7**
Rwanda	32.0	25.5	38.3	15.9	14.2	17.6	...
São Tomé and Principe	...	...	...	...	...	...	...
Senegal	**61.7**	**51.8**	**71.3**	**48.2**	**39.5**	**57.0**	**3.5***
Seychelles	...	...	...	...	...	...	7.9*
Sierra Leone	...	...	...	...	...	...	...
Somalia	...	...	...	...	...	...	...
South Africa	**14.4**	**13.7**	**15.0**	**8.5**	**8.4**	**8.5**	**5.9**
Sudan	40.9	29.4	52.2	21.9	16.6	27.2	...
Swaziland	19.7	18.7	20.6	9.2	10.0	8.4	6.2
Tanzania	**23.2**	**14.6**	**31.5**	**8.9**	**6.4**	**11.3**	**...**
Togo	41.6	24.6	57.9	23.6	12.2	34.9	4.8
Tunisia	**27.9**	**17.7**	**38.1**	**6.1**	**2.4**	**10.1**	**7.8***
Uganda	**31.9**	**21.7**	**41.9**	**20.5**	**14.0**	**26.9**	**2.3***
Zambia	**21.1**	**14.3**	**27.4**	**11.4**	**8.9**	**13.9**	**...**
Zimbabwe	**10.6**	**6.7**	**14.5**	**2.6**	**1.2**	**4.0**	**11.1***
Africa	**37.7**	**29.7**	**46.8**	**...**	**...**	**...**	

Note: *UNESCO Institute for Statistics (UIS) estimates.
Sources: UNESCO Institute for Statistics (UIS) Database, Domestic Authorities and African Live Database.

Table 19 - School Enrolment

	Primary Enrolment Ratio Latest available data			UNESCO primary, 1999 Gross enrolment ratio			Net enrolment ratio			Pupil/ teacher ratio	UNESCO secondary, 1999 Gross enrolment ratio			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		
Algeria				**114.4**	**109.6**	**118.9**	**97.2**	**95.6**	**98.8**	**28.4**	**66.9**	**64.7**	**69.2**	**18.1**	**6.4**
Angola				64.4*	59.9*	69.0*	27.3**	25.4**	29.2**	27.5**	15.5**	17.5**	13.4**	18.8**	2.4
Benin				85.9	69.1	102.7	70.3**	57.3**	83.2**	52.6	21.8	30.1	13.5	23.4	2.3
Botswana	**1999**	**116**	**89**	**108.4**	**...**	**...**	**83.6**	**...**	**...**	**27.0**	**81.8**	**78.2**	**85.4**	**14.8**	**...**
Burkina Faso	**2001-02**	**43.4**		**42.9**	**35.2****	**50.5****	**34.6**	**28.3**	**40.9**	**48.9**	**10.0**	**12.2**	**7.8**	**29.0****	**0.9**
Burundi				62.5*	55.5*	69.4*	44.5**	39.6**	49.4**	56.8*	...	...	...	...	2.0
Cameroon	**2000-01**		**79**	**91.1**	**83.9**	**98.2**	**...**	**...**	**...**	**69.4**	**...**	**...**	**...**	**...**	**4.7**
Cape Verde				...	...	...	...	...	...	...	...	...	...	...	...
Central African Republic				...	...	...	...	...	...	...	...	...	...	...	2.9
Chad				70.3	53.1	87.4	56.6	44.6	68.7	68.6	11.5	17.9	5.1	32.2	...
Comoros				83.8	76.4**	90.9**	54.8**	49.9**	59.6**	...	20.6**	22.6**	18.5**	10.9**	...
Congo				83.8	79.4	88.2	...	...	...	60.5	...	...	...	...	...
Congo Democratic Republic				...	...	...	...	...	...	...	...	...	...	...	...
Côte d'Ivoire				**76.9****	**65.6****	**88.2****	**58.4****	**50.2****	**66.5****	**...**	**...**	**...**	**...**	**...**	**3.2**
Djibouti				36.9	31.2	42.5	30.6	26.3	34.8	31.9**	14.7	12.9	16.6	21.4**	...
Egypt				**99.9****	**95.9****	**103.8****	**92.3****	**89.6****	**94.9****	**22.9****	**83.5****	**86.2****	**80.7****	**16.9****	**6.8**
Equatorial Guinea	2000	89.1		124.8**	112.4**	137.2**	78.9**	70.4**	87.5**	43.4**	31.2**	43.2**	19.2**	24.9**	...
Eritrea				61.2	55.1	67.3	40.3	37.4	43.3	47.5	28.2	33.2	23.1	54.1	...
Ethiopia	**2000**	**51**		**70.8**	**56.7**	**84.8**	**31.1**	**27.7**	**34.5**	**...**	**5.2**	**6.2**	**4.2**	**...**	**1.9**
Gabon	**1998-99**	**152**		**151.5****	**151.0****	**151.9****	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**5.1**
Gambia				75.1	71.2	79.1	69.8	64.9	74.6	33.2	27.0	31.1	23.0	21.1	...
Ghana	**1999**	**82.8**		**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**5.3**
Guinea				62.8	50.7	74.5	49.0	41.4	56.4	45.6	...	...	...	...	...
Guinea Bissau				82.7	66.3	99.1	53.5	44.5	62.6	44.1	20.4	26.4	14.4	20.9**	...
Kenya				**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**6.1**
Lesotho				103.5	108.2	99.0	58.5	62.3	54.7	...	28.0	23.6	32.4	...	...
Liberia				118.0	99.3	136.7	83.4	63.7	103.1	35.9	22.5	26.6	18.4	17.4	...
Libya				...	...	...	...	...	...	...	...	...	...	...	...
Madagascar				101.8	99.8	103.8	66.4	66.7	66.1	48.0	...	...	...	...	3.7
Malawi				158.1	158.3	157.9	68.5**	71.4**	65.7**	45.6	...	...	...	...	4.3
Mali	**2000-01**	**63**		**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**1.1**

Table 19 - School Enrolment (cont.)

	Primary Enrolment Ratio Latest available data			UNESCO primary, 1999 Gross enrolment ratio			Net enrolment ratio			Pupil/ teacher ratio	UNESCO secondary, 1999 Gross enrolment ratio			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		
Mauritania				84.3	81.8	86.8	...	...	...	45.0	18.4	21.4	15.4	26.8	...
Mauritius	2000-01	104		108.4	108.6	108.3	94.2	94.3	94.1	26.1	107.3	108.3	106.3	...	7.6
Morocco				90.4	82.5	98.0	74.5	69.8	79.0	28.8	39.3	43.6	35.0	16.9**	3.6
Mozambique	2001	99.3	60	85.4	72.9	97.9	50.1	45.6	54.7	61.5	13.9	16.6	11.3	32.0**	2.4
Namibia	2000	119.4	91.5	113.2	114.1	112.4	79.7	82.5	76.9	31.8	59.8	56.3	63.3	23.8	...
Niger				32.4	26.0	38.7	21.2	21.8	20.6	40.7	6.5**	7.8**	5.1**	23.4**	1.0
Nigeria	2000	91		...	...	...	...	...	...	...	...	...	...	...	3.9
Rwanda				122.4	120.9	123.8	97.3**	97.5**	97.1**	54.0	12.1	12.4	11.8	...	...
São Tomé and Principe				...	...	...	...	...	...	...	...	...	...	...	...
Senegal	2000-01	69.4		73.2	67.9	78.4	61.7**	57.8**	65.6**	50.9	...	...	...	...	2.6
Seychelles				...	...	...	...	...	...	14.7	...	...	...	...	3.6
Sierra Leone				65.2	62.7	67.8	65.2	62.7	67.8	29.7	23.9	26.4	21.6	23.1	...
Somalia				...	...	...	...	...	...	...	...	...	...	...	...
South Africa	2000	115		118.7	116.6	120.8	...	...	...	35.0	90.2	85.8	94.7	...	7.4
Sudan				55.0	50.6	59.3	44.7	40.7	48.6	26.7**	28.8	21.7	36.2	23.0**	2.9
Swaziland				124.6	121.2	128.0	92.8	93.6	92.1	33.2	...	...	...	...	...
Tanzania	2000		57	63.0	63.2	62.9	46.7	47.6	45.8	40.4	5.3	5.7	4.9	16.4	3.5
Togo				123.8	108.8	138.6	91.4	82.0	100.7	37.5	36.2**	50.2**	22.2**	31.5**	...
Tunisia				118.2	115.0	121.2	98.2	97.1	99.2	23.2	74.6	73.0	76.2	19.1	4.4
Uganda	2000		94	140.9	136.1	145.7	108.9	107.6	110.2	59.4	...	...	...	...	3.3
Zambia	1998	86	66	78.7	76.1	81.3	66.4	65.6	67.2	47.3	...	...	...	16.5	6.1
Zimbabwe	1997	112		96.6	95.0	98.1	80.2	80.4	79.9	41.0	45.3	48.1	42.5	...	8.3

Note: * = National estimation.
** = UNESCO Institute for Statistics (UIS) estimation.

Sources: UNESCO Institute for Statistics (UIS) Database estimation, September 2002.
Primary Enrolment Ratio, Latest available data: domestic authorities.
Years of schooling: Growth and Human Capital: Good Data, Good Results, Daniel Cohen and Marcello Soto (September 2001), OECD Development Centre Technical Paper.

Table 20 - Corruption Perception Index

	1998 Index	1998 Country Rank / 85	1999 Index	1999 Country Rank / 99	2000 Index	2000 Country Rank / 88	2001 Index	2001 Country Rank / 90	2002 Index	2002 Country Rank / 102
Algeria	...	...	...	...	...	...	...	...	...	...
Angola	...	...	...	...	1.7	85	...	...	1.7	98
Benin	...	...	...	...	...	...	...	...	...	...
Botswana	**6.1**	**23**	**6.1**	**24**	**6.0**	**24**	**6.0**	**26**	**6.4**	**24**
Burkina Faso	...	...	...	...	**3.0**	**63**	...	...	...	...
Burundi	...	...	...	...	...	...	...	...	...	...
Cameroon	**1.4**	**85**	**1.5**	**99**	**2.0**	**82**	**2.0**	**84**	**2.2**	**89**
Cape Verde	...	...	...	...	...	...	...	...	...	...
Central African Republic	...	...	...	...	...	...	...	...	...	...
Chad	...	...	...	...	...	...	...	...	...	...
Comoros	...	...	...	...	...	...	...	...	...	...
Congo	...	...	...	...	...	...	...	...	...	...
Congo Democratic Republic	...	...	...	...	...	...	...	...	...	...
Côte d´Ivoire	**3.1**	**59**	**2.6**	**75**	**2.7**	**69**	**2.4**	**77**	**2.7**	**71**
Djibouti	...	...	...	...	...	...	...	...	...	...
Egypt	**2.9**	**66**	**3.3**	**63**	**3.1**	**13**	**3.6**	**54**	**3.4**	**62**
Equatorial Guinea	...	...	...	...	...	...	...	...	...	...
Eritrea	...	...	...	...	...	...	...	...	...	...
Ethiopia	...	...	...	...	**3.2**	**58**	...	...	**3.5**	**59**
Gabon	...	...	...	...	...	...	...	...	...	...
Gambia	...	...	...	...	...	...	...	...	...	...
Ghana	**3.3**	**55**	**3.3**	**63**	**3.5**	**50**	**3.4**	**59**	**3.9**	**50**
Guinea	...	...	...	...	...	...	...	...	...	...
Guinea Bissau	...	...	...	...	...	...	...	...	...	...
Kenya	**2.5**	**74**	**2.0**	**90**	**2.1**	**80**	**2.0**	**84**	**1.9**	**96**
Lesotho	...	...	...	...	...	...	...	...	...	...
Liberia	...	...	...	...	...	...	...	...	...	...
Libya	...	...	...	...	...	...	...	...	...	...
Madagascar	...	...	...	...	...	...	...	...	1.7	98
Malawi	4.1	45	4.1	45	4.1	43	3.2	61	2.9	68
Mali	...	...	...	...	...	...	...	...	...	...

Table 20 - Corruption Perception Index

	1998		1999		2000		2001		2002	
	Index	Country Rank / 85	Index	Country Rank / 99	Index	Country Rank / 88	Index	Country Rank / 90	Index	Country Rank / 102
Mauritania	...	...	...	...	...	...	...	...	...	...
Mauritius	**5.0**	**33**	**4.9**	**36**	**4.7**	**35**	**4.5**	**40**	**4.5**	**40**
Morocco	**3.7**	**50**	**4.1**	**45**	**4.7**	**35**	**...**	**...**	**3.7**	**52**
Mozambique	**...**	**...**	**3.5**	**56**	**2.2**	**79**	**...**	**...**	**...**	**...**
Namibia	5.3	29	5.3	29	5.4	28	5.4	30	5.7	28
Niger	...	...	...	...	...	...	...	...	...	...
Nigeria	**1.9**	**81**	**1.6**	**98**	**1.2**	**88**	**1.0**	**90**	**1.6**	**101**
Rwanda	...	...	...	...	...	...	...	...	...	...
São Tomé and Principe	...	...	...	...	...	...	...	...	...	...
Senegal	**3.3**	**55**	**3.4**	**58**	**3.5**	**50**	**2.9**	**65**	**3.1**	**66**
Seychelles	...	...	...	...	...	...	...	...	...	...
Sierra Leone	...	...	...	...	...	...	...	...	...	...
Somalia	...	...	...	...	...	...	...	...	...	...
South Africa	**5.2**	**32**	**5.0**	**34**	**5.0**	**32**	**4.8**	**38**	**4.8**	**36**
Sudan	...	...	...	...	...	...	...	...	...	...
Swaziland	...	...	...	...	...	...	...	...	...	...
Tanzania	**1.9**	**81**	**1.9**	**93**	**2.5**	**74**	**2.2**	**82**	**2.7**	**71**
Togo	...	...	...	...	...	...	...	...	...	...
Tunisia	**5.0**	**33**	**5.0**	**34**	**5.2**	**32**	**5.3**	**31**	**4.8**	**36**
Uganda	**2.6**	**73**	**2.2**	**87**	**2.3**	**78**	**1.9**	**88**	**2.1**	**93**
Zambia	**3.5**	**52**	**3.5**	**56**	**3.4**	**57**	**2.6**	**75**	**2.6**	**77**
Zimbabwe	**4.2**	**43**	**4.1**	**45**	**3.0**	**63**	**2.9**	**65**	**2.7**	**71**

Source: Transparency International.

Table 21 - Political Troubles

	1996 (Annual data)	1997 (Annual data)	1998 (Annual data)	1999 (Annual data)	2000 (Annual data)	2001 (Annual data)	2002 I quarter	2002 II quarter	2002 III quarter
Algeria	121.4	124.2	126.6	141.6	120.3	142.5	18.0	29.6	11.5
Botswana	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Burkina Faso	0.0	3.2	1.1	5.6	9.5	2.5	0.6	0.0	1.9
Cameroon	23.7	54.7	1.3	1.5	2.2	1.0	0.3	0.3	0.0
Chad	4.4	5.6	2.2	20.2	26.7	16.7	0.0	1.9	1.0
Côte d'Ivoire	16.4	3.8	3.4	21.7	28.1	2.9	0.6	0.0	5.8
Egypt	22.9	43.6	0.0	1.0	7.8	7.2	1.1	0.9	0.0
Equatorial Guinea	1.9	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Ethiopia	48.5	12.2	1.6	24.8	5.7	8.4	2.9	29.2	10.5
Gabon	10.0	1.0	2.5	0.9	0.0	0.0	1.5	0.0	0.0
Ghana	4.9	0.0	0.3	4.5	1.9	3.8	3.8	0.0	0.0
Kenya	14.8	25.5	34.1	0.0	0.0	11.6	0.0	0.0	0.0
Mali	3.4	13.7	1.2	8.8	0.0	0.0	0.0	0.0	0.0
Mauritius	0.0	0.0	0.0	5.2	0.0	0.0	0.0	0.0	0.0
Morocco	12.2	1.6	2.2	0.5	0.5	0.0	0.0	0.0	0.0
Mozambique	37.7	0.0	0.0	2.7	6.8	0.0	0.0	0.0	0.0
Namibia	3.5	0.0	0.0	7.6	3.8	0.0	0.0	0.0	0.0
Nigeria	30.2	51.3	10.2	47.1	29.2	39.7	0.0	5.7	0.5
Senegal	0.3	19.6	2.7	5.6	5.7	5.9	2.9	3.8	1.0
South Africa	85.0	39.9	20.3	38.8	18.9	2.2	0.0	0.0	0.0
Tanzania	4.7	1.9	0.9	0.0	0.0	6.0	0.0	0.0	0.0
Tunisia	0.0	0.0	0.0	0.7	0.1	0.0	0.0	1.1	0.0
Uganda	81.3	15.3	10.5	9.6	0.0	23.9	0.0	0.0	10.5
Zambia	4.8	4.6	4.9	3.6	0.6	17.6	1.1	0.1	0.0
Zimbabwe	9.6	9.7	9.6	5.4	16.8	12.6	14.9	1.6	0.0

Note: See note on methodology.
Source: Authors' calculations based on Marchés Tropicaux et Méditerranéens.

Table 22 - Softening of the Regime

	1996 (Annual data)	1997 (Annual data)	1998 (Annual data)	1999 (Annual data)	2000 (Annual data)	2001 (Annual data)	2002 I quarter	2002 II quarter	2002 III quarter
Algeria	1.3	3.6	0.8	1.9	0.7	0.0	0.7	1.4	0.8
Botswana	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Burkina Faso	0.4	0.4	0.0	0.0	1.1	0.0	0.7	0.0	0.0
Cameroon	0.7	2.0	0.8	0.0	0.1	0.8	0.0	0.0	0.0
Chad	4.5	4.0	0.0	1.8	0.5	1.1	2.2	0.5	0.0
Côte d'Ivoire	1.5	2.1	1.0	1.1	2.6	3.9	0.0	1.4	0.0
Egypt	0.1	0.0	0.0	1.4	1.9	0.2	0.1	0.1	0.2
Equatorial Guinea	0.0	2.6	0.0	0.8	0.7	0.5	0.0	0.0	0.0
Ethiopia	0.1	0.1	0.8	0.0	0.1	1.6	0.0	0.0	0.0
Gabon	0.0	0.5	0.5	0.0	0.1	0.0	1.1	0.0	0.0
Ghana	0.9	0.1	0.0	0.0	1.1	0.2	0.0	0.0	0.0
Kenya	0.9	0.7	0.6	0.0	0.0	1.1	0.0	0.0	0.0
Mali	1.4	2.3	0.9	1.7	1.4	0.1	0.0	1.2	0.1
Mauritius	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Morocco	0.9	0.6	0.6	0.0	2.1	0.0	0.0	0.4	0.4
Mozambique	0.1	0.0	0.0	0.0	0.7	1.5	0.0	0.0	0.0
Namibia	0.0	0.4	0.0	0.0	0.0	1.1	0.0	0.0	0.0
Nigeria	1.1	1.8	6.6	3.4	0.3	0.0	0.4	0.0	0.1
Senegal	0.5	0.7	0.0	2.4	1.1	1.6	0.1	0.0	0.0
South Africa	3.1	2.3	0.8	2.0	0.9	2.2	0.0	0.8	0.0
Tanzania	0.2	0.1	0.1	1.6	0.0	1.6	0.7	0.0	0.0
Tunisia	2.2	0.4	1.5	4.3	2.5	2.8	2.2	0.7	1.1
Uganda	0.0	0.4	0.4	0.6	0.7	0.1	0.0	0.0	0.4
Zambia	1.4	0.0	1.7	0.7	0.0	1.2	0.5	0.7	0.1
Zimbabwe	0.1	0.1	0.0	0.2	1.2	0.6	0.1	1.4	0.0

Note: See note on methodology.
Source: Authors' calculations based on Marchés Tropicaux et Méditerranéens.

Table 23 - Hardening of the Regime

	1996 (Annual data)	1997 (Annual data)	1998 (Annual data)	1999 (Annual data)	2000 (Annual data)	2001 (Annual data)	2002 I quarter	2002 II quarter	2002 III quarter
Algeria	11.9	6.5	4.3	2.5	0.3	8.1	7.0	6.5	1.2
Botswana	0.3	0.5	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Burkina Faso	0.8	1.9	0.6	4.5	1.6	1.1	2.7	0.0	0.0
Cameroon	7.4	5.9	1.9	1.6	1.0	3.3	0.6	0.3	0.0
Chad	2.9	1.0	1.4	0.0	1.1	2.6	0.0	0.4	0.0
Côte d'Ivoire	2.9	2.5	0.7	10.2	7.8	1.4	0.0	0.8	0.7
Egypt	9.4	6.8	5.5	2.0	7.7	3.9	2.0	5.5	4.1
Equatorial Guinea	0.0	1.2	5.0	0.0	0.0	0.9	1.2	4.3	0.3
Ethiopia	7.5	3.9	2.4	0.0	0.7	3.6	0.4	6.4	1.6
Gabon	1.0	5.1	0.7	2.1	0.4	0.0	0.5	0.0	0.0
Ghana	2.2	0.8	2.5	2.4	0.0	0.8	1.0	0.3	0.0
Kenya	3.9	11.0	3.6	0.0	0.0	0.7	0.0	0.0	1.2
Mali	0.4	5.1	0.0	0.4	1.2	1.1	0.0	0.0	0.3
Mauritius	0.3	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Morocco	5.0	3.7	1.4	1.2	3.4	2.9	0.0	0.4	0.9
Mozambique	0.3	0.9	2.3	1.1	3.7	1.2	0.0	0.0	0.0
Namibia	0.0	0.3	0.0	1.2	1.6	0.3	0.0	0.0	0.3
Nigeria	125.5	9.1	5.8	4.2	4.5	2.8	1.0	1.0	0.4
Senegal	1.7	3.3	2.7	0.3	0.0	1.7	0.3	0.0	0.8
South Africa	18.6	14.3	6.1	4.5	1.9	1.2	0.6	0.0	0.0
Tanzania	1.3	0.4	0.5	0.0	0.3	0.4	0.0	0.0	0.0
Tunisia	3.4	1.2	0.8	1.3	0.8	1.4	0.4	1.2	0.4
Uganda	3.1	0.0	0.7	0.9	0.0	5.8	0.3	0.3	0.0
Zambia	5.5	8.5	3.9	3.0	1.1	4.7	2.9	1.7	0.4
Zimbabwe	4.0	3.7	7.7	5.1	4.8	12.5	5.2	4.7	5.2

Note: See note on methodology.
Source: Authors' calculations based on Marchés Tropicaux et Méditerranéens.

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