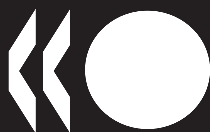
An OECD Browse_it Edition • Read Only • Lecture seule

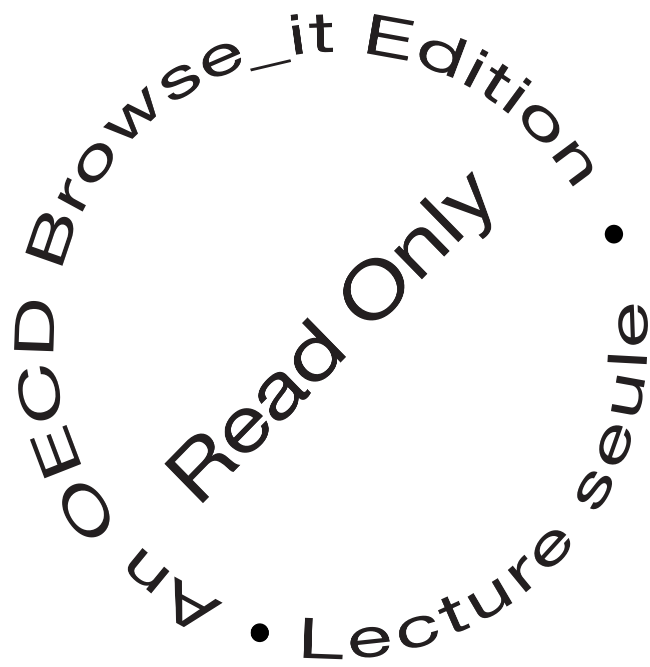
# African Economic Outlook

OECD



2003/2004

AFRICAN DEVELOPMENT BANK




**About OECD Browse_it editions**

In a traditional bookshop you can browse the display copies from cover-to-cover, free of charge. Wouldn't it be good to be able to do the same online? Now you can. OECD's Browse_it editions allow you to browse our books, online, from cover-to-cover. But, just as in a real bookshop where you can't take or copy pages from the books on display, we've disabled the print and copy functions in our Browse-it editions - they're read-only. And, just as in a real bookshop, you may choose to buy or borrow from a library some titles you've browsed, so we hope you'll buy or borrow our books when they meet your needs. Tell us what you think about our Browse-it service, write to us at sales@oecd.org.

**Buying OECD Publications**

You can purchase OECD books and e-books from our Online Bookshop - www.oecd.org/bookshop where, if you purchase printed editions you can download the e-book edition free of charge. Our books are also available from a network of distributors, click the 'Distributors' button on this website: www.oecd.org/publications/distributors to find your nearest OECD publications stockist.

**OECD Publications in Libraries**

You'll find OECD publications in many institutional libraries around the world, especially at universities and in government libraries. Many subscribe to the OECD's own e-library, SourceOECD. SourceOECD provides online acess to our books, periodicals and statistical databases. If your institutional library does not yet subscribe to SourceOECD, tell your librarian about our free three-month trial offer. For more details about SourceOECD visit http://new.SourceOECD.org or email sourceoecd@oecd.org. OECD has a network of Depository Libraries in each Member country where all OECD printed publications are available for consultation - www.oecd.org/deposoitorylibraries for a list.

An OECD Browse_it Edition • Read Only • Lecture seule

# African Economic Outlook

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

OECD Browse_it Edition • Read Only • Lecture seule

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th September 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

– to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
– to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
– to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The original Member countries of the OECD are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became Members subsequently through accession at the dates indicated hereafter: Japan (28th April 1964), Finland (28th January 1969), Australia (7th June 1971), New Zealand (29th May 1973), Mexico (18th May 1994), the Czech Republic (21st December 1995), Hungary (7th May 1996), Poland (22nd November 1996), Korea (12th December 1996) and the Slovak Republic (14th December 2000). The Commission of the European Communities takes part in the work of the OECD (Article 13 of the OECD Convention).



*The Development Centre of the Organisation for Economic Co-operation and Development was established by decision of the OECD Council on 23rd October 1962 and comprises twenty-three Member countries of the OECD: Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Korea, Luxembourg, Mexico, the Netherlands, Norway, Portugal, Slovak Republic, Spain, Sweden, Switzerland, as well as Chile since November 1998 and India since February 2001. The Commission of the European Communities also takes part in the Centre's Governing Board.*

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

*The Centre is part of the "Development Cluster" at the OECD and enjoys scientific independence in the execution of its task. As part of the Cluster, together with the Centre for Co-operation with Non Members, the Development Co-operation Directorate, and the Sahel and West Africa Club, the Development Centre can draw upon the experience and knowledge available in the OECD in the development field.*

THE OPINIONS EXPRESSED AND ARGUMENTS EMPLOYED IN THIS PUBLICATION ARE THE SOLE RESPONSIBILITY OF THE AUTHORS AND DO NOT NECESSARILY REFLECT THOSE OF THE OECD OR OF THE GOVERNMENTS OF ITS MEMBER COUNTRIES.

*

* *

*Publié en français sous le titre :*

PERSPECTIVES ÉCONOMIQUES EN AFRIQUE

Permission to reproduce a portion of this work for non-commercial purposes or classroom use should be obtained through the Centre français d'exploitation du droit de copie (CFC), 20, rue des Grands-Augustins, 75006 Paris, France, tel. (33-1) 44 07 47 70, fax (33-1) 46 34 67 19, for every country except the United States. In the United States permission should be obtained through the Copyright Clearance Center, Customer Service, (508)750-8400, 222 Rosewood Drive, Danvers, MA 01923 USA, or CCC Online: www.copyright.com. All other applications for permission to reproduce or translate all or part of this book should be made to OECD Publications, 2, rue André-Pascal, 75775 Paris Cedex 16, France.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## THE AFRICAN DEVELOPMENT BANK GROUP

The African Development Bank Group is a regional multilateral development finance institution the members of which are all of the 53 countries in Africa and 25 countries from Asia, the Middle East, 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 programs that contribute to poverty reduction and broad-based sustainable development in Africa.

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

By the end of 2003, the African Development Bank Group cumulatively approved 2 786 loans and grants for commitments amounting to over $44.2 billion. The commitments were made to 52 regional member countries and various national and regional institutions to support development projects and programmes in agriculture, education, health, transport, public utilities, and industry sectors. Since the mid-1980s, a significant share of commitments has also gone to promoting economic reform and adjustment programmes that help to accelerate socio-economic development. About two-thirds of total Bank Group commitments were financed on non-concessional terms, while the balance benefited from concessional financing.



© AfDB/OECD 2004 

An OECD Browse_it Edition • Read Only • Lecture seule

## Foreword

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

A generous grant from the Commission of the European Communities was essential to initiating and sustaining the project.



© AfDB/OECD 2004

An OECD Browse_it Edition • Lecture seule • Read Only



## African Economic Outlook

Foreword . . . . . . . . . . 4
Acknowledgements. . . . . . . . . . 6
Preface . . . . . . . . . . 7

*Part One: Overview* . . . . . . . . . . 9
- The International Environment . . . . . . . . . . 14
- Macroeconomic Performance in Africa . . . . . . . . . . 22
- The Millennium Development Goals: Progress Report . . . . . . . . . . 29
- Governance and Political Issues . . . . . . . . . . 33
- Energy Supply and Poverty . . . . . . . . . . 37
- Electricity Sector Reforms . . . . . . . . . . 44

*Part Two: Country Studies* . . . . . . . . . . 51
- Algeria . . . . . . . . . . 53
- Botswana . . . . . . . . . . 65
- Burkina Faso . . . . . . . . . . 79
- Cameroon . . . . . . . . . . 93
- Côte d'Ivoire . . . . . . . . . . 105
- Egypt . . . . . . . . . . 119
- Ethiopia. . . . . . . . . . . 133
- Gabon . . . . . . . . . . 147
- Ghana . . . . . . . . . . 161
- Kenya . . . . . . . . . . 177
- Mali. . . . . . . . . . . 193
- Mauritius. . . . . . . . . . . 207
- Morocco . . . . . . . . . . 219
- Mozambique . . . . . . . . . . 233
- Nigeria. . . . . . . . . . . 247
- Senegal . . . . . . . . . . 261
- South Africa. . . . . . . . . . . 275
- Tanzania . . . . . . . . . . 295
- Tunisia . . . . . . . . . . 309
- Uganda . . . . . . . . . . 323
- Zambia . . . . . . . . . . 337
- Zimbabwe . . . . . . . . . . 355

*Part Three: Statistical Annex* . . . . . . . . . . 373



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## Acknowledgements

The African Economic Outlook was prepared by a team led by Jean-Claude Berthélemy and Mohammed Nureldin Hussain. In addition to the managers, the core team was composed of Barfour Osei, Obadiah Mailafia and Beejaye Kokil at the Development Research Department of the African Development Bank and Céline Kauffmann, Nicolas Pinaud, Christine Rosellini and Lucia Wegner at the OECD Development Centre.

The comparative synthesis of the Report was drafted by Jean-Claude Berthélemy, Mohammed Nureldin Hussain, Céline Kauffmann, Barfour Osei and Lucia Wegner.

The country notes were drafted by Bernard Aigobkhan, Sémi Cherif, Céline Kauffmann, Barfour Osei, Nicolas Pinaud, Christine Rosellini, Audrey Verdier-Chouchane, Patrice Wadja and Lucia Wegner. The work on the country notes greatly benefited from the valuable contributions of local consultants: Jerome Afeikhena (South Africa), Rose Aiko (Tanzania), William Bekoe (Ghana), Mahmoud Ben Sassi (Tunisia), Abdelhakim Berrah (Algeria), Veepin Bhowon (Mauritius), Mukoma Kandeke (Zambia), Tiegist Lemma (Ethiopia), Moubarack Lo (Senegal), Luis Magaco Jr. (Mozambique), Oumar Makalou (Mali), E.S.K. Muwanga-Zake (Uganda), Kouadio N'dri (Côte d'Ivoire), Maryclaire Hiuko Ngari (Kenya), Robert Ngonthe (Cameroun), Christopher Nwobike (Nigeria), Modeste Mfa Obiang (Gabon), Elie Ouedraogo (Burkina Faso), Malak Ali Reda (Egypt), Trevor Simumba (Zambia) and Dirk Ernst Van Seventer (South Africa).Valuable inputs were provided by Andrea Goldstein, Johannes Jütting and Henri-Bernard Solignac Lecomte of the OECD Development Centre and by Koua Louis Kouakou and Fetor Komlan at the ADB Development Research Department.

The macroeconomic framework used to produce the projections was updated and managed by Céline Kauffmann at the OECD Development Centre and Beejaye Kokil at the African Development Bank. The statistical annex is the product of joint work carried out by Beejaye Kokil and Céline Kauffmann. The project also benefited from crucial research assistance conducted by Aleksandra Bogusz, Federica Marzo and Raphaël Soulignac at the OECD Development Centre and Mboya Deloubassou, Koua Louis Kouakou and Fetor Komlan at the ADB Development Research Department.

A large number of African government representatives, private sector colleagues and civil society members provided extremely valuable inputs and comments. Several institutions also contributed to the project at various stages: the Macroeconomics Studies Division of the Agence Française de Développement, the ADB country desks, the International Energy Agency Statistics Division, the IMF African Department, the OECD Economics Department, the OECD Development Co-operation Directorate and the World Bank Economic and Prospects Group. The OECD Development Centre's Publications/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, Deputy Director, OECD Development Centre and Henock Kifle, Director, ADB Development Research Department.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



## Preface

This is the third edition of our joint *African Economic Outlook*, a project initiated by the African Development Bank and the OECD Development Centre, with the strong support of the European Commission. The aim with this edition, as with the two that have preceded it, is to provide a tool for understanding current economic and social conditions and for highlighting the development prospects for the African continent.

The AEO team comprises staff from our two institutions as well as local analysts. They have used the same, proven methodology as in the past to produce the 22 country reviews and short-term forecasts employing a single, unique model. In this way, the analysis is made truly comparative in the tradition of the OECD's *Economic Outlook.*

The scientific and intellectual rigour with which the *AEO* has been prepared gives it a legitimacy that has been recognised by its users in the worlds of business, academia, politics and public affairs. The *Outlook* has thus made a concrete contribution towards the understanding of African economies, and to more informed policy making and investment decisions.

While dispelling myths, the *AEO* still reminds us of some of the development challenges facing African countries. The country studies and the overall analysis carry much good news about civil peace and economic progress, identifying policies that work and those that do not, but they also remind us of the human dimensions of the challenges still facing the peoples of Africa. These challenges can be viewed to a large extent through the lens of the United Nations' Millennium Development Goals. As with last year's *AEO*, we are forced to recognise that few African countries will achieve any of the MDGs by 2015. This is indeed disappointing, and a cause that both Africa's leaders and the international community, including our own organisations, need to take up with renewed determination.

On the positive side, the improvement of the international economic environment, relative to 2002, carried some good news for African countries. Internally, with the calming of conflicts in key areas such as the Great Lakes region, major reforms by African governments, progress on the NEPAD agenda, African countries are poised to take advantage of the improved external environment. Indeed, in many countries, we see improvements in the management of the economy, in the business environment and in increasing respect for institutions, alongside recognition that growth must be accompanied by poverty reduction and the improvement and extension of basic social services. The international donor community is also showing increased interest for Africa's development, as evidenced by the positive evolution of aid budgets in recent years, unprecedented in the last decade.

The special theme of this year's *Outlook* is energy supply. We find that, despite the substantial contribution energy can make to almost every walk of life – from demography to democracy, from education to employment, from gender equality to growth and from investment to integration – the energy potential of the continent is sorely under-exploited. There is room for huge improvements in this field and a wealth of opportunity for both entrepreneurs and their current and potential customers.

We are confident that this edition of the *AEO* will prove to be as useful as its predecessors to the policy-making and business communities, as well as to all those concerned with African development. In the context of the current renewed co-operation between African leaderships for the reform of governance, for growth and for poverty alleviation – as evidenced in the start-up of NEPAD's African Peer Review Mechanism — it will be an essential input to their deliberations.

Louka T. Katseli
Director
OECD Development Centre
Paris

Omar Kabbaj
President
African Development Bank
Tunis

April 2004



© AfDB/OECD 2004 

An OECD Browse_it Edition • Read Only • Lecture seule

# Part One

An OECD Browse_it Edition • Read Only • Lecture seule

An OECD Browse_it Edition • Lecture s…
Read Only

# Overview

An OECD Browse_it Edition • Read Only • Lecture seule

# Overview

This third edition of *African Economic Outlook* assesses economic changes on the continent primarily through in-depth analysis of 22 countries, which together account for two-thirds of Africa's population and three-quarters of its gross domestic product. They are the same countries surveyed in the 2002/03 edition of the AEO:

- North Africa: Algeria, Egypt, Morocco and Tunisia.
- West Africa: Burkina Faso, Côte d'Ivoire, Ghana, Mali, Nigeria and Senegal.
- Central Africa: Cameroon and Gabon.
- East Africa: Ethiopia, Kenya, Mauritius, Uganda and Tanzania.
- Southern Africa: South Africa, Botswana, Mozambique, Zambia and Zimbabwe.

Our comparative assessment also provides a continent-wide perspective, drawing on data from the African Development Bank and other international financial institutions. The first two parts of this overview deal with the international environment faced by African economies and their macroeconomic performance.

After the sharp slowdown in developed countries in 2001, the world economy has recovered, growing by 3 per cent in 2002 and 3.9 per cent in 2003[1] with the improvement accounted for mainly by economic growth in developing countries. Africa's growth rate, in 2003, at 3.6 per cent, was the highest for the last four years, and significantly higher than the 2.7 per cent growth rate recorded in 2002[2]. This improved economic growth rate was achieved despite the weak growth in the world economy and despite continued structural and political constraints to improved economic performance in some parts of the continent.

This recovery, nearly one percentage point better than in 2002, was partly due to good prices for several of Africa's raw material exports, including farm products, energy and minerals. It was also helped by a significant increase in public development aid to Africa after the launch of NEPAD and the successful Monterrey Conference on Financing for Development in 2002. Other factors contributing to the relatively better performance were improved economic fundamentals and the restoration of peace, albeit fragile, in some parts of the continent, notably the Great Lakes region, Angola and West Africa. However, the civil war in Côte d'Ivoire that broke out following the September 2002 failed coup, continues to impose major constraints on the socio-economic situation of the country and its neighbours.



Judging by the probable trend in raw material prices and renewed growth in OECD countries, it is expected that the average growth of 2003 will hold up in 2004 and perhaps rise to 4 per cent in 2005, certainly far below the rate required for reducing poverty and attaining the internationally agreed Millennium Development Goals (MDGs). Nonetheless, Africa's average economic growth could be said to be more favourable now than it was in the first years of the decade.

The next part of this Overview confirms the diagnosis of last year's AEO, to the effect that Africa is, overall, rather far from achieving the MDGs. This year we make a more in-depth analysis and examine several MDG targets and their representative indicators, covering poverty and hunger, health and education. The *Outlook* highlights the continent-wide improvements that NEPAD can be expected to bring in this domain and discusses recent developments in governance at the level of national governments in Africa. It is to be

1. Source IMF (2004), *World Economic Outlook*, April.

2. These figures come from the AEO data base. They exclude Liberia, Libya and Somalia. See Table 1 and Appendix below.

OECD Browse_it Edition • Read Only • Lecture seule

recalled that NEPAD represents a pledge by African leaders, based on a common vision and a firm and shared conviction, that they have a duty to eradicate poverty and to place their countries on a path of sustainable growth and development.

However, the challenges that lie ahead are daunting. There is a need for African countries to co-ordinate the implementation of NEPAD and, in particular, ensure that efforts are directed towards accelerated growth and poverty reduction. To this end, they need to strengthen the foundations of development by promoting good economic and political governance. In particular they need to uphold the standards and norms of democratic governance and sound public management. These commitments will need to be complemented by adequate international assistance.

Each year the *Outlook* provides an in-depth analysis of an important topic critical for Africa's development prospects. In this year's edition the focus is on the energy sector, following last year's focus on the issue of privatisation. Each country profile covered by the *Outlook* analyses the energy sector and discusses the main policy issues involved. The *Outlook* also examines Africa's energy potential and how it has remained virtually under-utilised, even though an adequate and accessible supply of modern energy to households and production entities is crucial to the process of socio-economic development, and, hence, to the attainment of the MDGs. In the absence of adequate modern energy supplies, households tend to use mostly biomass, which produces very little energy, impacts negatively on health and quality of life and helps deplete ecological resources in many countries where firewood is routinely used. The fact that most people do not use modern energy sources also deprives producers of access to efficient production technology and deprives individuals of access to vital services that can improve their lives, such as public and home lighting, refrigerated conservation of food, medicine and vaccines and access to information through radio and TV.



The electricity sector is key because of the many services it provides. It also has a political economy dimension surrounding its production and distribution. The chapter closes by evaluating the policies that have been implemented in recent years to modernise the sector.

## The International Environment

### *Growth in the OECD Area*

Changes in international economic conditions have been very varied since the sharp slowdown in 2001 after the Internet bubble burst and the 11 September attacks. Overall growth in the OECD zone, which drives the world economy, fell below one per cent in 2001, the lowest for more than a decade, and then recovered in 2002 (1.8 per cent) and 2003 (2 per cent).

The OECD Secretariat[3] expects growth to climb to 3 per cent in 2004 and 3.1 in 2005 but remain well below the peak of the previous cycle. This trend can be expected to improve international conditions for African countries over the next two years. However, the expected stimulus is quite modest and not enough to generate vigorous economic growth, especially in meeting the internationally agreed targets for the Millennium Development Goals.

Africa trades much more with Europe than it does with the United States. Thus, the analysis of Africa's trade-induced economic growth has to be set against the difference in growth between the European Union and the United States. Africa sold 48 per cent of its exports to the European Union (15 member states) in 2002 – 52 per cent when the other Western, Central and Eastern European countries (including new EU members) are added – and only 15 per cent to the United States[4]. Clearly, economic trends in Europe would tend to be more important than those in the United States when it comes to demand for African goods.

3. Source: OECD (2003), *OECD Economic Outlook*, December.

4. Source: Authors' estimates based on IMF data (Direction of Trade Statistics).

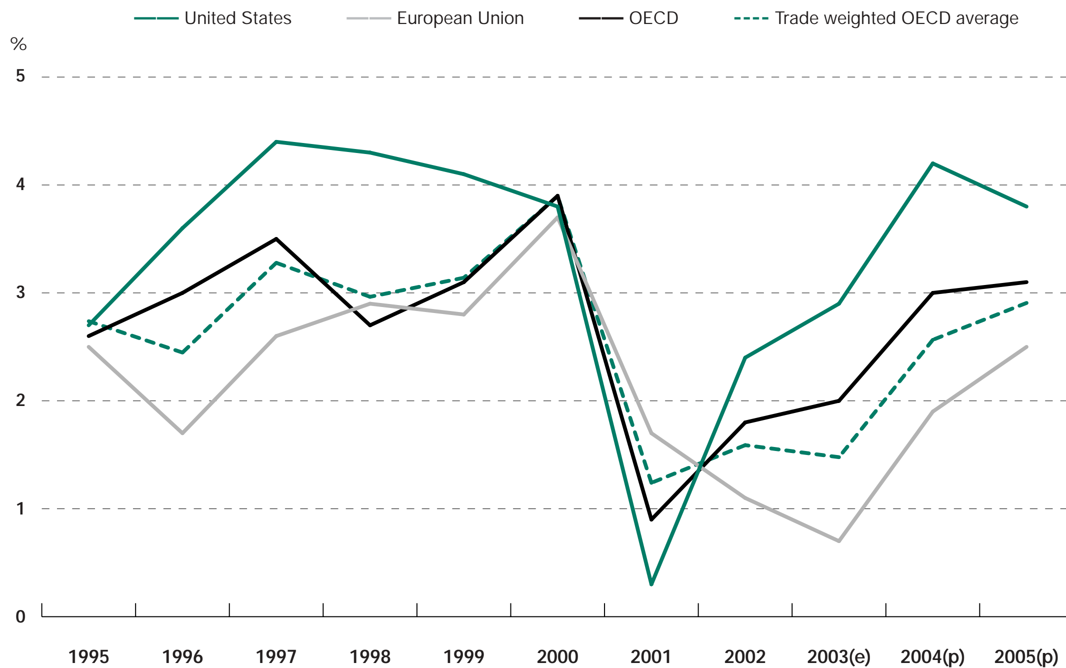


© AfDB/OECD 2004

An OECD Browse_it Edition • Lecture seule • Read Only

Since the US and European economic cycles are not in tandem, growth slowed later in Europe and only reached its nadir (+0.7 per cent) in 2003. Hence the disparity benefited Africa in 2001, but not in 2002 and 2003. Growth in the OECD zone's demand for African products, calculated as the weighted growth of each OECD member state[5], was 1.2 per cent in 2001, 1.6 in 2002 and 1.5 in 2003. Expected weak European growth in 2004 (1.9 per cent) and 2005 (2.5) will continue to hold down growth in demand for African goods in 2005, which is predicted at 2.6 per cent in 2004 and 2.9 in 2005 (Figure 1).

Figure 1 - **Growth in Demand for African Goods by OECD Countries**




**Source:** Authors' estimates based on OECD data and (for export structure) on IMF statistics.

### *Exchange Rates*

European growth has been partly slowed by the 45 per cent nominal appreciation of the euro against the dollar between February 2002 and February 2004, exceeding its January 1999 introductory value of $1.16 in October 2003 and reaching about $1.22 in March 2004. This made Euro zone products significantly less price-competitive compared with the 1999-2001 period. The OECD Secretariat[6] is of the view that the appreciation of the euro has reached its peak and the value of the currency is predicted to fall slightly and settle at around $1.14 in 2004 and 2005, a little higher than in 2003 (Figure 2).

The appreciation of the euro had a direct impact on the economies of many African countries in 2003. The Franc Zone countries whose currency is pegged to the euro were worst hit because their non-traditional exports became less price-competitive and the CFA franc-equivalent value of their raw materials exports, which are priced in dollars, fell.

5. Weighting coefficients are their respective share in Africa's exports.

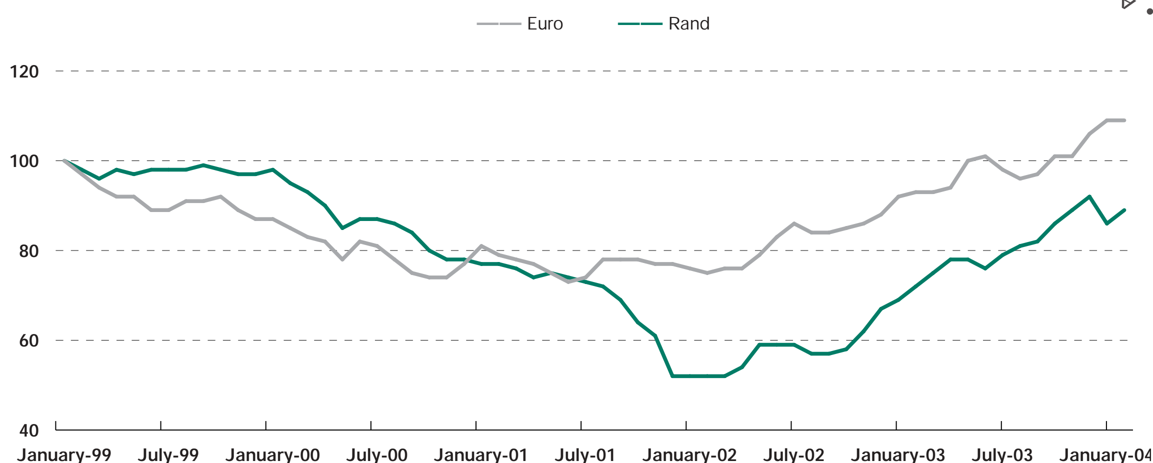
6. Source: OECD (2003), *OECD Economic Outlook*, December.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

Figure 2 - **Value of the Euro and the Rand against the Dollar** (base 100 in January 1999)




**Source:** London foreign exchange market.



Currency value changes in 2002 and 2003 also witnessed a spectacular 78 per cent rise in the nominal value of the South African rand against the US dollar between January 2002 and December 2003, partly due to local factors (making up for an excessive fall in its value in 2001 along with a fairly accurate risk assessment by would-be investors) but also because of the weakness of the dollar against all other traded currencies over the two years and the buoyant price of precious metals. The rand's strength affected several Southern African countries whose currencies are pegged to it.

## Raw Materials Prices

African raw material producers have recently enjoyed fairly good prices, which were boosted for some countries by the US economic turn around and for others by political factors (in the case of gold and oil) or by the weather (for cotton). This cyclical trend, however, does not reverse the steady long-term decline in prices.

### *Oil*

The drop in oil prices in 2001 was followed by an erratic period, with a big rise just before the 2003 invasion of Iraq. The barrel price, which was below $20 at the end of 2001, climbed to $30 at the end of 2003 and hit $37 in March 2004 (NYMEX/WTI price) because of OPEC's decision to reduce output (daily quota cuts of a million barrels – 5 per cent of all OPEC production – from 1 April 2004), political unrest in Venezuela and fairly low oil stocks in the United States. The OECD Secretariat[7] predicts however that the price will stabilise below $30 in 2004 and 2005, slightly lower than the average price in 2003 (Figure 3). This prediction hinges crucially on geopolitical developments in the Middle East.

### *Metals*

The price of gold continued on its upward trend which began in mid-2001 (triggered by international uncertainty), topping $400 an ounce at the end of 2003 for the first time since February 1996. This was especially good news for South Africa, the world's leading producer (15 per cent of the total) and other African gold producers, such as Ghana and Mali. However, for South Africa and Mali, the rise in the value of the rand and the euro completely cancelled out the increased price, which fell in rands and did not improve in CFA francs.

Prices of other metals, such as copper and aluminium, also rose in 2002 and 2003, benefiting

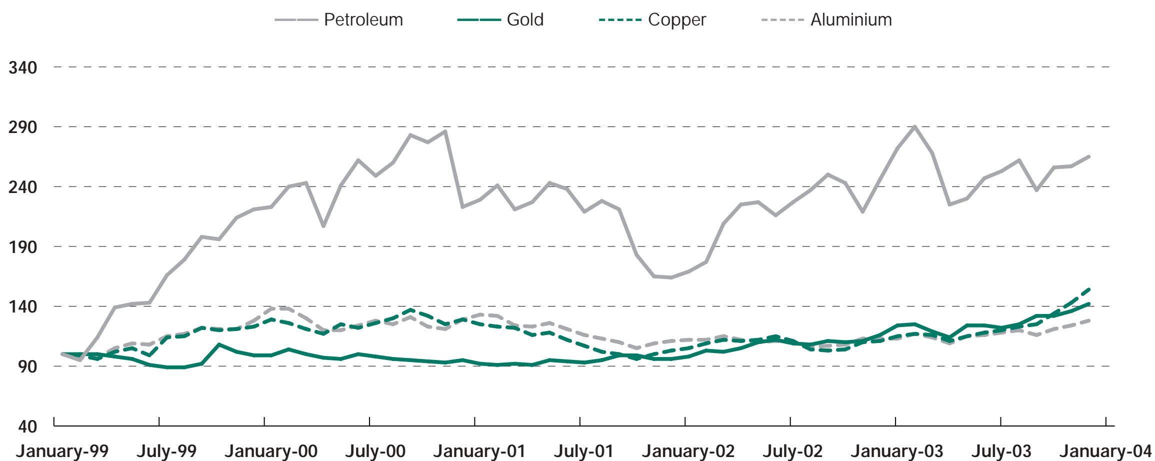
7. Source: OECD (2003), *OECD Economic Outlook*, December.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

Figure 3 - **Prices of Oil and Metals** (base 100 in January 1999)




**Source:** IMF.

Zambia (for copper), Mozambique and to a lesser extent Ghana, Cameroon and Guinea (aluminium).

*Agricultural products*

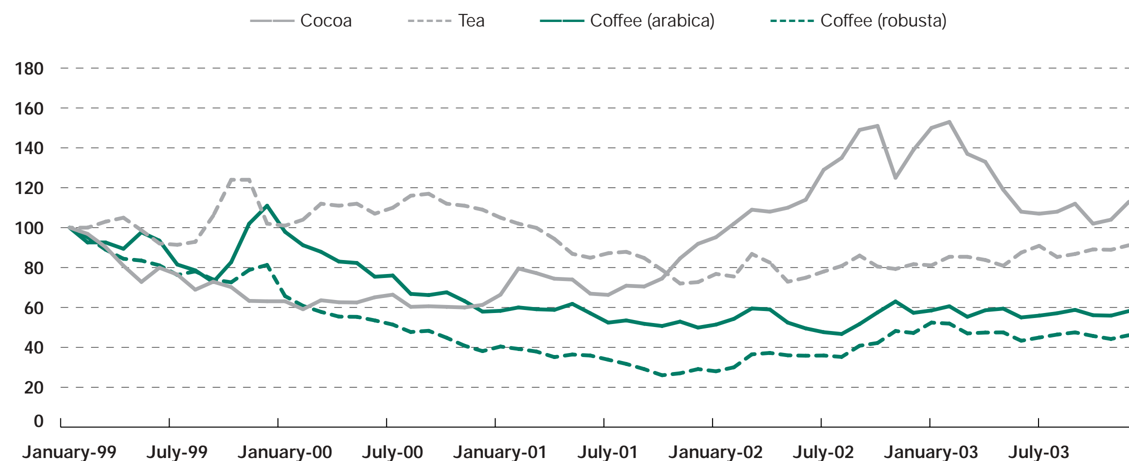
Among tropical commodities, cocoa (the main export crop in Côte d'Ivoire and Ghana) showed the biggest price fluctuation. It rose 120 per cent between July 2001 and December 2002 and then fell 30 per cent between March and June 2003 to settle at 160-170 cents/kg. This is about the same as its level at the end of 1997, at the top of the earlier cycle, but still nearly half what it was at its peak in the early 1980s.

The price of coffee, exported by many countries, held fairly steady in 2003 after rising significantly (for the robusta variety) in 2002, making up for the sharp fall in 2001. Coffee prices are expected to improve slightly in 2004 and 2005 but their outlook is not promising.

Tea prices, which dropped more than 40 per cent between September 2000 and the end of 2001, have since risen nearly 25 per cent. However, previous price levels are unlikely to be reached particularly as prices are not expected to improve much in 2004 and 2005 (Figure 4).



Figure 4 - **Prices of Tropical Beverages** (base 100 in January 1999)




**Source:** IMF.

© AfDB/OECD 2004

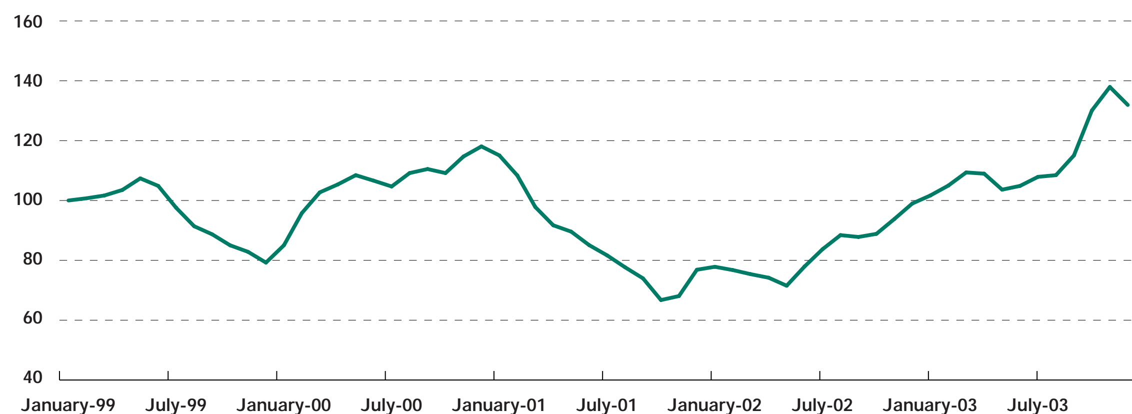
OECD Browse_it Edition • Read Only • Lecture seule

The world price of cotton almost doubled between October 2001 and December 2003, after falling more than 40 per cent between January and October 2001. This cyclical change, caused mostly by fluctuations in weather conditions, which had a negative impact on US production, allowed African producers to enjoy better prices. However, prices are not expected to rise much higher in 2004 and 2005 due to excessive supply as African countries have greatly increased their output in recent years (Figure 5).

The cotton price illustrates the special problems encountered by some of the poorest sub-Saharan countries in the context of today's international trade regime. West and Central African countries produce low-cost, high-grade cotton but face unattractive and declining world prices because of the subsidies some countries accord to their producers.

At the September 2003 WTO ministerial meeting in Cancún, four African countries (Benin, Burkina Faso, Mali and Chad) proposed negotiations to end cotton subsidies in WTO member countries, but US opposition, muted enthusiasm from most other developed countries and failure of discussions on the meeting's other agenda items resulted in no action being taken on the proposal.

Figure 5 - **Price of Cotton** (base 100 in January 1999)




**Source:** IMF.



### *Official Development Assistance*

A welcome development in the past two years has been a continued, significant rise in official development assistance (ODA). This increase, which had been predicted by the 2002/03 *Outlook,* has been strongly confirmed and the OECD's Development Assistance Committee (DAC) estimated total net ODA to developing countries rose by 16 per cent between 2001 and 2002. This increase, although largely accounted for by debt relief, is in line with promises made at the March 2002 Monterrey conference and is expected to continue, with the DAC predicting a 7.9 per cent growth of ODA by its members (who constitute the vast majority of the donors) between 2002 and 2006.

If the expected increases are realised and other donors step up their net aid, as well, net ODA flows could climb back to their 1996 level and top $76 billion (Figure 6). This would still be far below the peak reached in the early 1990s which amounted to $90 billion annually in 2002 prices. Taking 1989 as a base year, predictions are that the ground lost in the 1990s will have been regained by 2006, though these forecasts are still based on political pronouncements rather than firm decisions.

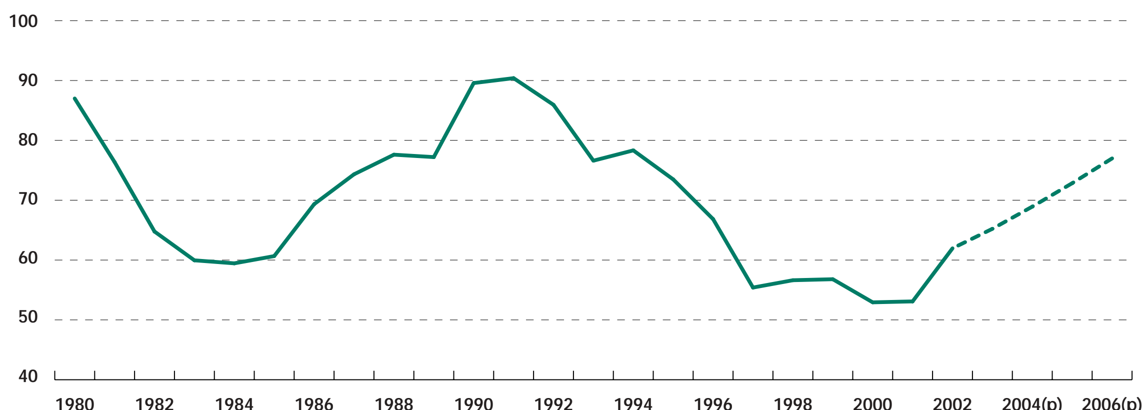
It must be noted, however, that funding sources have not all increased their aid at the same pace. US aid has



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only • A OECD

Figure 6 - **Net Flow of Official Development Assistance** (billions of 2002 dollars)




**Source:** Authors' estimates based on OECD data.

risen 15 per cent, mainly in response to new international challenges after the 11 September terrorist attacks. Europe's aid has increased 5.8 per cent, largely thanks to France, Italy, Sweden and the European Commission. Other EU members with smaller aid budgets (Belgium, Finland, Ireland and Portugal) also greatly boosted their aid, as did Canada. Japan, on the other hand, has reduced its net aid by the equivalent of $560 million.

Some of these increases in aid donation can be attributed to increased debt relief under the Heavily-Indebted Poor Countries (HIPC) Initiative, which accounted for $6 billion in ODA in 2002. Such flows are expected to stabilise in the medium term (and decline over the long term) as the remaining countries qualify for debt relief under the HIPC Initiative.

*Growth of aid to Africa*

Africa is the continent that has benefited the most from the recent aid increases. Its share of total global ODA rose sharply in 2002 — continuing the upward trend that began in 2001, following the steady decline of previous years (Figure 7). However, the aggregate figure that shows an upward trend in ODA flows hides structural shifts involving a decline in aid from Japan (reinforcing its traditional tendency to give less aid to Africa) and an increase in aid from Europe and North America. Some donors have also significantly changed their geographical distribution of aid. For instance, Canada now gives half of all its aid to Africa.

The NEPAD process was, indeed, instrumental in making the continent the focus of developed-country aid[8]. NEPAD has been strongly backed by the international community since it was launched, with donors' support reaffirmed at the G8 summits in Genoa (2001), Kananaskis (2002) and Evian (2003). By 2002, Africa's share of total net ODA flows had returned to the 36 per cent recorded in the mid-1990s.

Net ODA to Africa jumped 35 per cent in value between 2001 and 2002 (32 per cent in real terms taking into account 2.1 per cent inflation in OECD countries in 2002). This is partly because aid in real terms has increased globally, and partly because a larger proportion of aid is now directed toward Africa. Should Africa's share of net ODA continue to rise to reach 40 per cent of the total in 2006, the aid received by the continent would amount that year to $30 billion (in 2002 dollars). This implies 36 per cent more aid compared with 2002. This is very far short of what is needed to reach the Millennium Development Goals but it is still a big step forward and more than

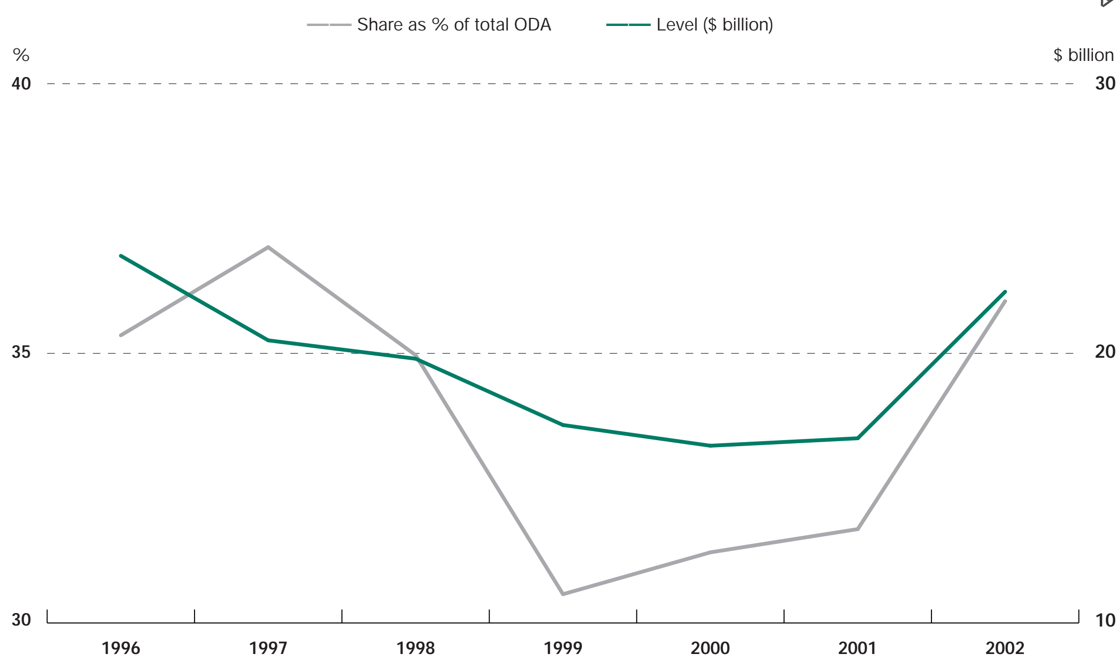
8. The NEPAD process is discussed in depth later in this section.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

Figure 7 - **Net ODA to Africa** (in 2002 dollars)




**Source:** Authors' estimates based on OECD data.



could have been realistically expected in the medium term.

*Geographical distribution*

Southern Africa (except South Africa) and West Africa (except Nigeria) are the two regions that benefit most in per capita terms from ODA. In 2002, these two sub-regions received $55 and $40 per capita respectively (Figure 8). In Southern Africa, the main beneficiaries in order of magnitude, are Mozambique and Zambia and, in West Africa, Burkina Faso, Mali, Senegal, Ghana and (irregularly in recent years) Côte d'Ivoire. Growth of aid to Southern Africa, in 2002, focused strongly on Mozambique, which received more than $1 billion extra, mainly in the form of HIPC debt relief.

A large proportion of the 2002 increase in ODA to West Africa went to Côte d'Ivoire, which (after a big drop in aid between 1999 and 2001) received $1 billion as the political situation seemed to be stabilising before the failed coup in September that year. As in the case of Mozambique the rise in ODA flows was closely linked to debt relief by the Paris Club under the Lyons terms at a time when Côte d'Ivoire seemed near HIPC decision point. However, the civil war that erupted in September 2002 undermined this progress and a return to normal is not expected before the end of 2004 at the earliest.

Per capita aid to Central and East Africa is usually about half that to Southern and West Africa. However, aid to Central Africa has risen sharply, mainly due to resumption of assistance to Democratic Republic of the Congo (DRC) as part of post-conflict reconstruction. Aid to East Africa has fallen, especially to Uganda, which received 20 per cent less in 2002. This was mainly because of the fall in additional debt relief as the country is reaching the end of the HIPC process that it had begun in 1996. Debt relief had tended to inflate the amount of the country's net ODA flows.

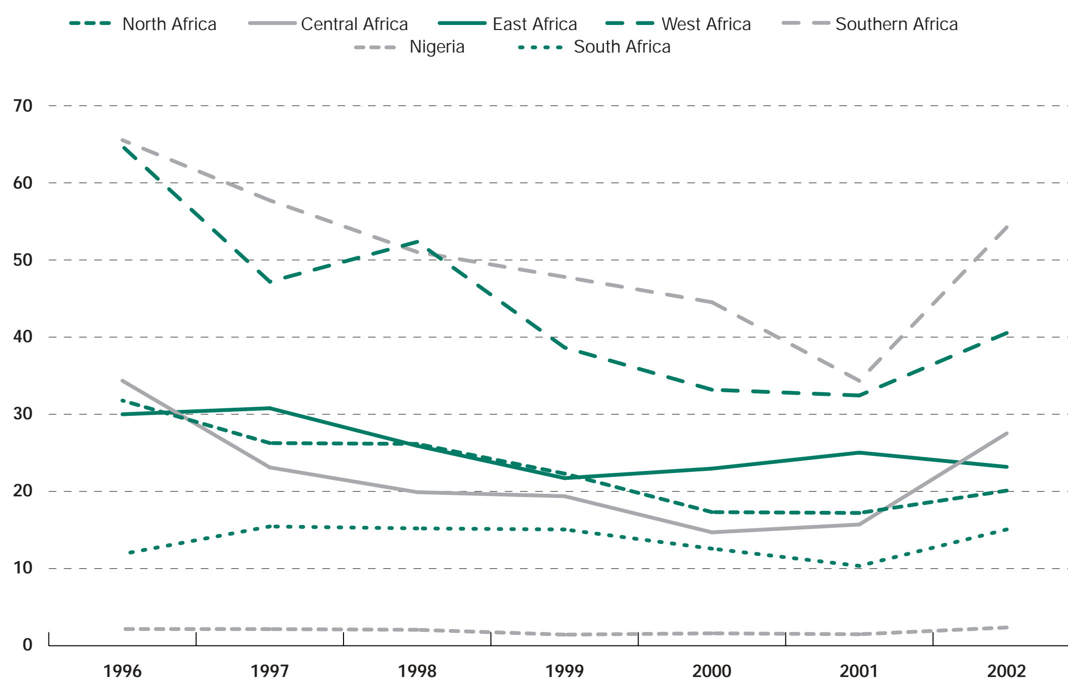
Aid to North Africa has steadily declined since the early 1990s due to reduced aid to Egypt which had enjoyed a substantial increase in aid since the early 1990s largely as a result of debt relief granted to it in 1991. Nevertheless, Egypt is still by far the region's largest recipient of ODA.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

Figure 8 - **Net Per Capita ODA by Region** (in 2002 dollars)




**Source:** Authors' estimates based on OECD data.



*Criteria for aid*

Aid policies are largely guided (with some variations according to donor) by two major principles: targeting the poorest and needy countries; and directing aid toward countries with adequate policies and governance that give them the best chance to boost growth and reduce poverty.

The trend in recent years has been to help the poorest countries. The biggest gainers have been the first quintile (the 10 poorest countries), which now get the largest share of aid to Africa (32 per cent in 2002 – up from 23 per cent in 1996). The increase in aid share of the poorest countries has been largely due to the rise in aid to Mozambique and Ethiopia. This increase has been at the cost of countries in the fourth quintile, which, paradoxically, used to receive the largest amount of aid in 1996 (more than 30 per cent). However, in 2002, countries in the fourth quintile were still receiving a share of 26 per cent. This group includes Egypt and Côte d'Ivoire. In 2001, Egypt lost its place as Africa's largest aid recipient which it had enjoyed since the early 1970s. Aid to Egypt has steadily declined, from more than $2 billion at the start of the 1990s to under $1.3 billion in 2001 and 2002. Côte d'Ivoire got substantial aid, especially in 2002, after a pause in 2000 and especially in 2001 because of political instability.

The use of governance criteria for the allocation of aid can be examined by relating aid allocation to the Country Policy and Institutional Assessment (CPIA) indicator which is used by the African Development Bank for resource allocation[9]. The CPIA assesses the policy stance of countries and their institutions using 20 criteria grouped into four clusters: *a)* macroeconomic policies; *b)* structural policies; *c)* policies for growth with equity and poverty reduction; and *d)* governance and public sector performance. When the CPIA is correlated with ODA allocation the results reveal that the 20 per

9. The indicator is similar to the CPIA of the World Bank and estimates show that the two are closely correlated.

OECD Browse_it Edition • For Read Only • Lecture seule

cent of countries that score best on the indicator receive only 17.6 per cent of total net ODA to Africa[10], and the proportion has barely changed in recent years (it was 17.3 per cent in 1996). However, this result is not surprising in view of the fact that the group of countries that have the best policies and institutions includes some middle-income countries with much lower incidence of poverty. The countries in the second quintile in the CPIA ranking received much more ODA, with allocations amounting to 43.1 per cent in 2002, slightly up from 41.9 in 1996. Those in the third quintile saw their share fall from 18.3 to 14.1 per cent over this period. Aid to countries in the fourth and fifth quintiles was small and fairly stable amounting to 12.2 and 12.9 per cent in 2002 respectively.

Overall, countries with relatively good policies and institutions receive a larger share of aid; except for some countries in the first quintile in the CPIA ranking that have relatively small incidences of poverty. The same results apply for both bilateral and multilateral aid, whose donors follow similar allocation policies. These observations lend support to the results of similar analyses by the DAC in its 2003 annual report, which reveal that, in recent years, countries with better CPIA rating (using the World Bank's CPIA indicator) received more net ODA from DAC member countries.



For the continent as whole the degree of aid dependency is quite modest, measuring 4 per cent of Africa's GDP in 2002. However, there is a large variation of aid dependency among individual African countries. For instance, there are some 12 countries with ODA flows that amount to more than a fifth of their GDP, including Eritrea, Guinea-Bissau, Malawi, Mauritania, Mozambique and São Tomé. In recent years, the aid dependency of Ethiopia, Burundi, Rwanda, and Sierra Leone has grown significantly. These countries will be the most vulnerable to changes in aid policies.

## Macroeconomic Performance in Africa

### *Economic Growth*

The world economic slowdown in 2001 had a slightly delayed effect on Africa, where growth fell to 2.7 per cent in 2002, from 3.3 per cent in 2001 and 3.6 per cent in 2000. The impact was relatively modest because of the sharp rise in ODA from 2002, anti-recession budget policies and the beginning of a price recovery for the continent's raw material exports.

Table 1 - **Average Growth Rates of African Regions**

| Region | Average 1996-2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|
| Central Africa | 2.7 | 4.1 | 4.2 | 7.1 | 7.0 |
| East Africa | 4.3 | 1.7 | 2.4 | 4.9 | 4.6 |
| North Africa | 4.5 | 3.3 | 4.9 | 3.5 | 4.2 |
| Southern Africa | 2.8 | 3.3 | 1.8 | 2.8 | 3.1 |
| West Africa | 3.5 | 1.0 | 4.5 | 3.9 | 4.0 |
| Total | 3.6 | 2.7 | 3.6 | 3.6 | 4.0 |

**Note:** These aggregates do not include Liberia, Libya and Somalia. Predictions for 2005 are calculated without Congo (DRC), Angola and Zimbabwe, for which forecasts are not possible.
**Source:** Authors' (e) = estimate; (p) = projection.

Despite continuing poor demand for African products in 2003, growth rose to 3.6 per cent, the average since the mid-1990s. Growth is expected to be about the same in 2004 and possibly rise to 4 per cent in 2005, but these predictions should be treated cautiously. Recent country trends show that growth in Africa is vulnerable to weather conditions and political events in certain parts of the continent.

10. Somalia and Libya were not considered in this exercise for lack of enough data.



© AfDB/OECD 2004

Browse_it Edition • Read Only • Lecture seule • OECD

*North Africa*

The region suffered in 2002 from the backlash of the 11 September attacks, especially through a drop in tourism, and only grew 3.3 per cent in 2002 (down from 4.5 per cent in 2001). The figure was much better in 2003 at 4.9 per cent according to the estimate of the AEO, helped by good harvests in the Maghreb countries and a continuing strong performance by Algeria's oil sector. The region also did well due to government efforts at reform, so growth may continue in 2004 and 2005, especially in Tunisia where it has been quite strong in recent years.

Egypt took a big step in January 2003 by partly liberalising its exchange market, which should increase its growth possibilities. In addition its natural gas sector is booming. Growth is none the less fairly small, since the effective devaluation of the Egyptian pound has not sufficiently stabilised the currency market or boosted exports. The economy remains dependent on the political and economic situation in the Middle East because of dependence on remittances from Egyptian workers abroad and on a tourist sector which is volatile due to regional politics and continued violence in the region.

*West Africa*

Growth was quite good in 2003, averaging 4.5 per cent, the best in recent years and a big improvement on 2002. It was impressive in view of the serious political crisis in Côte d'Ivoire from September 2002 and an economic recession there which started in 2002 and deepened in 2003.

Landlocked neighbours, especially Mali and Burkina Faso, whose trade depends on their road and rail links with the port of Abidjan, adapted very well economically to the disruption. They were helped by good harvests, used alternatives routes to ports in Ghana, Togo, Benin, Guinea and Senegal and government policies managed to limit the economic effects of the Ivorian crisis. Ghana and Senegal benefited from the situation with more trade, though this did not substantially boost their growth.

Côte d'Ivoire sank into civil war in September 2002 after a failed coup that resulted in the country's being divided between north and south. A peace agreement was signed in January 2003 (the Marcoussis accords), which produced a ceasefire three months later and the formation of a national unity government which is to organise elections in October 2005.

Until that date, the situation will remain very uncertain. A United Nations peacekeeping force (ONUCI) was installed in April 2004 to replace the regional ECOWAS force (MICECI). The Ivorian economy shrank for the second year running in 2003, by 2.3 per cent, but it may grow slightly in 2004, though only if political peace returns and reconstruction gets under way.

Nigeria, which has a special role in West Africa because of its large size and oil wealth, had robust growth of about 5 per cent in 2003 due to the good performance of oil, which meant much more added value in the energy sector. This also boosted the government's revenue and helped restore its finances after being obliged to declare a debt moratorium in 2002.

Despite liberalisation of the domestic market for oil products, which reduced some shortages, the energy sector, like the rest of the economy, remains inefficient. President Olusegun Obasanjo was democratically re-elected in 2003 but his country still has serious governance and security problems. Economic growth is not expected to be strong in 2004 and 2005, when we predict it will be around 3.7 per cent.

*Central Africa*

The region has had quite good growth (more than 4 per cent) since 2002, thanks to the healthy performance of the oil sector, helped by favourable world prices, and also to a calmer political situation in Congo (DRC) which enabled countries to begin reconstruction with foreign funding.

Chad, which began producing oil in the Doba region in July 2003, a few months earlier than scheduled,

OECD Browse_it Edition • Lecture seule • Read Only

has seen strong growth since 2001 due to investment in the oil sector and is expected to top 40 per cent in 2004, the first full year of oil production. Cameroon also got a boost from this investment with construction of the oil pipeline to the port of Kribi.

Equatorial Guinea, also because of its booming oil sector, had double-digit growth once again and the figure should be even higher in 2005. Even Gabon, whose oil output has declined in the past few years, had a very good year in 2003, as well-extraction rates improved.

In Congo (DRC), the political normalisation that began with the 2001 ceasefire started to bear political and economic fruit. A national unity government was set up in June 2003, ending five years of civil war. But serious concern about the reunification process remained because of human rights violations, lawlessness and political unrest in eastern provinces. There are still many refugees and displaced persons in the country and throughout the Great Lakes region.

The government obtained $750 million in PRGF funds in June 2002 after implementing an IMF Staff Monitored Programme (SMP) and reaching HIPC decision point in July 2003. It also received aid from the African Development Bank, the World Bank and various bilateral sources, which enabled it to make progress in reforms and reconstruction, boosting growth in 2003 to 5 per cent (and an expected 6 per cent in 2004).

*East Africa*

Growth in East Africa was poor in 2002 and only slightly better in 2003 (2.4 per cent), partly due to drought that badly hit the 2002/03 harvests in Ethiopia, Kenya and Uganda.

The successful democratic handover in Kenya in December 2002 brought hope of economic progress but there was none in 2003. The return of civil peace to Madagascar helped good growth in 2003 (after a sharp decline in 2002) and the Mauritian economy also benefited. Ethiopia and Eritrea profited from a fragile settlement of their border dispute, enforced by the presence since July 2000 of a UN peacekeeping force (UNMEE), and a peace accord signed in December 2000. Opposition movements are, however, still active in Ethiopia, Somalia and (with fewer economic consequences) Uganda and Tanzania (Zanzibar).

The region has not benefited much from developed countries' increased ODA budgets and Kenya, Malawi, Tanzania and Uganda even saw net ODA receipts fall in 2002. That year and 2003 were disappointing for the region, but 2004 should be better. Quite strong growth is expected in 2003/04 as agricultural output returns to normal after a bad year in 2002/03. Projections by donors indicate that Kenya will start getting more aid in 2004 as its governance improves. So East Africa could see fairly good growth in 2004, of around 4.9 per cent, which could hold up well in 2005 barring a new drought.

*Southern Africa*

Growth slumped badly in 2003 to an average 1.8 per cent, partly due to South Africa (1.9 per cent in 2003, down from 3.6 in 2002), which was hit by weak external (especially European) demand and by the rise in the value of the rand, which made South African industry less competitive. The mining sector, notably gold, suffered from higher costs and the stronger rand. Its problems could grow with the new mining code being discussed in early 2004 which could increase royalties to the government. All this should limit South Africa's growth to 2.5 per cent in 2004 and 3.1 per cent in 2005.

Mozambique maintained healthy growth thanks to reforms, substantial foreign aid and construction of the second phase of the Mozal aluminium smelter, which was set to open in 2004.

Zimbabwe, however, remained in the grip of its macroeconomic crisis of recent years caused by serious agricultural problems (due to the land redistribution programme), a budget crisis, further price distortions and a big shortage of foreign exchange. International political isolation increased and Zimbabwe left the Commonwealth in December 2003. No solution of the





© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only


economic crisis is in sight and only very short-term predictions are feasible.

### Inflation

The improvement in macroeconomic stability noted in our 2002/03 report has been generally confirmed – in monetary policy, inflation control and reducing public and external deficits. Inflation mostly dropped to sustainable levels, except in a few countries, notably Zimbabwe and until recently Congo (DRC) and Angola, where it remained rather high.

*North Africa*

Inflation is on average below 3 per cent. Egypt was an exception in 2003/04 due to imported inflation resulting from the fall in the Egyptian pound, but this was temporary and is not expected to lead to structural inflation.

*West Africa*

Inflation is under control in the eight West African Economic and Monetary Union (WAEMU/UEMOA)

**Table 2 - Average CPI Inflation by Region in Africa**

| Region | Average 1996-2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|
| Central Africa | 4.4 | 2.8 | 2.9 | 2.9 | 2.8 |
| East Africa | 6.6 | 1.6 | 7.6 | 4.1 | 3.8 |
| North Africa | 4.0 | 2.3 | 2.5 | 3.1 | 2.5 |
| Southern Africa | 8.2 | 9.9 | 7.0 | 5.8 | 5.1 |
| West Africa | 11.5 | 8.7 | 7.4 | 5.1 | 5.1 |
| Total | 7.2 | 5.4 | 5.0 | 4.4 | 3.9 |

**Note:** These aggregates do not include Libya, Liberia, Somalia and Sudan, for lack of data, or Angola, Congo (DRC) and Zimbabwe, which have had strong bouts of inflation over the period (up to 2001 in Congo DRC).
**Source:** Authors' (e) = estimate; (p) = projection.

countries – Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. The Central Bank of West African States (CBWAS/BCEAO) supervises monetary policy so as to head off inflation and the WAEMU/UEMOA set up a fairly sophisticated multilateral monitoring system in 1997, partly to keep inflation below 3 per cent. However the regional average is still quite high because of Gambia (13 per cent), Ghana (12.3) and Nigeria (10.7) in 2003.

*Central Africa*

Inflation has mostly stayed under 3 per cent in this region too, except in Congo (DRC), and also partly due to regional mechanisms, in this case in the Franc Zone, to which the six member countries of the Central African Economic and Monetary Union (CEMAC) – Cameroon, Congo, Gabon, Equatorial Guinea, the Central African Republic and Chad – belong and whose Bank of Central African States (BEAC) conducts a cautious monetary policy. These countries set up a multilateral monitoring system in 2002 similar to the WAEMU/UEMOA one (though not yet as sophisticated) to keep inflation below 3 per cent.

*East Africa*

The region had a burst of inflation (7.6 per cent) in 2003 after a low rate in 2002. This was not structural but due to the effect on food prices of mediocre 2002/03 harvests in Ethiopia, Kenya and Uganda.

*Southern Africa*

The South African Reserve Bank (SARB)'s inflation-targeting monetary policy pushed the country's rate down to 6 per cent in 2003 after it rose temporarily the previous year because of the sharp drop in the rand. The rand's strength in 2003 made a substantial, albeit short-lived, contribution to reducing inflation, which we expect to continue falling in 2004 and 2005.

Apart from South Africa and countries whose currencies are pegged to the rand (Botswana, Lesotho,


© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

Namibia and Swaziland), inflation in the region is not very well controlled. Zambia still has strong structural inflation of over 20 per cent in recent years, which is not expected to fall much below this in 2004 and 2005. Mozambique still had double-digit inflation in 2003, which should fall to around 8.5 per cent in 2004 and 2005. Angola and Zimbabwe have had very high inflation in the past few years, which will continue in Zimbabwe in 2004 and beyond in the absence of macroeconomic reforms.

### Public Finances

African governments as a whole increased their budget deficits in 2002 as they kept their expenditure at traditional levels despite less revenue due to the economic downturn. Better prices for key raw materials, along with other factors, boosted public revenue in 2003, though not by very much owing to the weakness of the dollar, which reduced revenue in local currency because raw material exports were priced in the US currency, especially in the franc and rand zones.

These deficits will probably be about the same in 2004 and 2005, in the absence of unexpected monetary policy changes by governments, but this modest level of deficit is not worrisome and is part of serious budgetary efforts by several countries in recent years. However country-by-country assessment is needed since performances vary.

**Table 3 - Average Budget Balance to GDP Ratio**

| Region | Average 1996-2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|
| Central Africa | -1.2 | 0.9 | 4.2 | 4.3 | 4.9 |
| East Africa | -3.3 | -5.2 | -4.7 | -4.1 | -3.7 |
| North Africa | -1.2 | -3.0 | -2.5 | -2.7 | -2.8 |
| Southern Africa | -2.5 | -1.8 | -2.2 | -3.0 | -3.0 |
| West Africa | -1.7 | -4.5 | -2.9 | -2.9 | -2.6 |
| Total | -1.9 | -3.0 | -2.3 | -2.5 | -2.4 |

**Note:** These aggregates do not include Angola, Congo (DRC), Libya, Liberia, Somalia, Sudan and Zimbabwe for lack of data.
**Source:** Authors' (e) = estimate; (p) = projection.



#### *North Africa*

Algeria benefited from good conditions in its oil industry to increase its 2003 budget surplus from 1.2 to 4.1 per cent of GDP. Even with a similar favourable situation, Egypt's budget deficit was still a very high 6.1 per cent in 2003/04 (6.2 in 2002/03). Cautious budget policy produced acceptable deficits in Morocco (2.6 per cent) and Tunisia (2.1 per cent). Overall, deficits fell modestly in 2003 but should increase slightly in 2004 and 2005 in view of oil price projections, but also because of robust public investment in Algeria and Morocco largely aimed at reducing poverty.

#### *West Africa*

Budget deficits only declined slightly in 2003 and the situation was not entirely satisfactory. Nigeria managed to reduce its deficit thanks to oil but it was still a high 4 per cent of GDP in 2003 (down from 5.7 in 2002).

As part of their multilateral monitoring exercise, WAEMU/UEMOA member states began a fairly broad convergence programme, which included a criterion of at least a balanced basic budget[11]. Côte d'Ivoire's landlocked neighbours had bigger public deficits in 2003 because of their governments' efforts to minimise the adverse economic impact of the Ivorian situation, especially in sectors such as cotton that depended on international transport. Burkina Faso and Niger were thus unable to meet this criterion. Senegal paradoxically also had a bigger budget deficit (though it met the criterion) due to a big rise in government expenditure. Guinea-Bissau continued to have a very high deficit.

11. Total revenue (excluding grants) minus total expenditure (excluding foreign-funded investment).



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

Ghana began efforts in 2002 to increase tax revenue and control spending and managed to reduce its deficit from 5 per cent that year to 3.2 in 2003, a trend that should continue into 2005 when we predict it will be 1.3 per cent.

*Central Africa*

The region – except for Congo (DRC) – had large budget surpluses in 2003 due to strong oil sectors (especially Gabon and Equatorial Guinea) and serious efforts at fiscal control. In the CEMAC countries, these were through a multilateral monitoring mechanism that included (as in the WAEMU/UEMOA area) a basic budget balance criterion. Only the Central African Republic and Chad failed to meet this criterion in 2003. Gabon had a surplus equivalent to 9 per cent of GDP and was able to meet all external payments due. Chad's deficit was still large but will fall substantially in 2004 thanks to oil revenue.

*East Africa*

Budget ratios to GDP were slowly improving in the region and this should continue in 2004 and 2005, but Ethiopia still had a very large deficit in 2003/04 (9.7), up from 8.7 in 2002/03. Other countries showed better budgetary control, apart from Eritrea and the Seychelles. The government of Kenyan President Mwai Kibaki which took office in December 2002 has conducted an active budget policy as part of its Economic Recovery Strategy (ERS) and this produced a significantly bigger deficit in 2002/03 of 4.9 per cent, which should fall in the next few years.

*Southern Africa*

There is considerable variation in the region with respect to government management of budget deficits. Excesses in recent years in Angola and Zimbabwe due to political and economic events and lax monetary policies have fuelled high inflation. Zambia's budgetary and monetary indiscipline produced a 7.6 per cent deficit in 2003 which is expected to increase in 2004 and 2005. But Mozambique significantly reduced its deficit.

South Africa has a very cautious budget policy but plans to increase expenditure substantially between 2003/04 and 2005/06 as part of its revised Medium Term Expenditure Framework (MTEF), especially in the social sector in a greater effort to fight poverty. The small 1.2 per cent deficit of 2002/03 should thus rise to 1.9 in 2003/2004, 2.7 in 2004/05 and 2.8 per cent in 2005/06.

### Balance of Payments

Trade in Africa, like the current account, tends to be balanced because, apart from ODA, the continent gets very little external capital, either as loans or foreign direct investment (FDI). The flow of funds (net of reimbursements) has even been negative, at about 1.5 per cent of GDP in 2002[12], when FDI fell nearly 60 per cent[13] to just 2 per cent of the continent's GDP.

Balances of payments in Africa have improved where external debt is concerned thanks to macroeconomic stabilisation efforts and especially the HIPC debt relief programme. The continent's debt remained steady in 2003, at $297 billion, a fall in the average debt/GDP ratio to 47.6 per cent (55.2 per cent in 2002).

By December 2003, seven African countries – Benin, Burkina Faso, Mali, Mauritania, Mozambique, Tanzania and Uganda – had reached HIPC completion point and 16 others – Cameroon, Congo (DRC), Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Madagascar, Malawi, Niger, Rwanda, São Tomé and Principe, Senegal, Sierra Leone, Chad and Zambia – had reached decision point and were already getting interim debt relief.

12. Source: Authors' estimates based on World Bank data (World Development Indicators).

13. Source: Authors' estimates based on UNCTAD data.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

Table 4 - **Average Ratio of Trade Balance to GDP**

| Region | Average 1996-2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|
| Central Africa | 14.1 | 13.7 | 13.3 | 17.2 | 17.9 |
| East Africa | -10.8 | -10.3 | -10.4 | -10.2 | -8.5 |
| North Africa | -5.0 | -3.8 | -4.1 | -5.1 | -5.5 |
| Southern Africa | 1.6 | 2.6 | -0.4 | 0.3 | 0.1 |
| West Africa | 10.0 | 4.4 | 7.7 | 6.7 | 6.7 |
| Total | 0.9 | -0.3 | -0.2 | -0.2 | -0.2 |

**Note:** These aggregates do not include Angola, Congo (DRC), Libya, Liberia, Somalia, Sudan and Zimbabwe for lack of data.
**Source:** Authors' (e) = estimate; (p) = projection.

Regional differences were considerable however (Table 4), depending on country specialisation (oil states maintained good surpluses in 2003) and macroeconomic policy.

*North Africa*

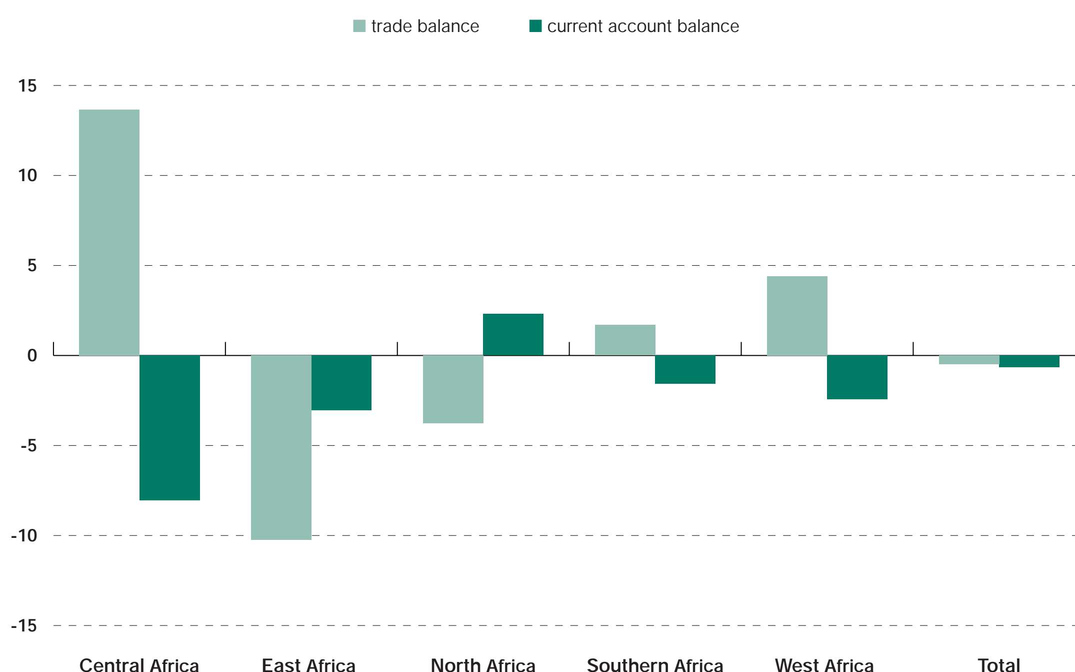
The region has a big trade deficit that has been growing since 2002, influenced mainly by Egypt, Morocco and Tunisia, with deficits of 9.4, 11.1 and 10 per cent of their GDPs respectively, while Algeria had a surplus of 12 per cent of GDP in 2003. However, since all four received a large amount of remittances from their nationals working abroad, their current accounts were much healthier and the region's overall current account was in surplus (Figure 9).

*West Africa*

This region has an overall trade surplus because of Nigeria's and Côte d'Ivoire's structural surplus. Both countries have current account deficits however because of factor income and (for Côte d'Ivoire) transfers. The other countries have a range of large trade deficits, offset in the current account by ODA. Apart from Côte d'Ivoire, none of the WAEMU/UEMOA countries



Figure 9 - **Trade and Current Account Balances in 2002** (percentage of GDP)




**Source:** Authors' estimates.


© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

complies with the convergence criterion of a balanced current account (minus transfers) under the multilateral monitoring system.

*Central Africa*

Oil states give the region a strong trade surplus (except for Cameroon, which exports less oil and has a smaller surplus). The surplus is expected to grow in 2004 when Chad passes from deficit to surplus with the first full year of production from the Doba oilfield, but the region has a substantial current account deficit due to factor income and imported services for the oil sector. In the CEMAC area, only Congo and Gabon comply with the balanced current account criterion. Outside CEMAC, Congo (DRC) had a trade deficit in 2003 because of reconstruction-related imports.

*East Africa*

All countries have a large trade deficit which makes for a regional figure of just over 10 per cent of GDP. Since most countries get transfers in the form of ODA, the regional current account deficit is smaller, at a sustainable 3 per cent in 2002.

*Southern Africa*

Angola's and Botswana's strong trade surpluses and a more modest one in South Africa (sharply cut in 2003/2004 by the strength of the rand), along with deficits in most other countries, especially Zambia and Mozambique, give the region a fairly even trade balance. In mining countries, services imports and factor payments mostly to do with mining substantially reduce the current account balance, while Mozambique's current account deficit is reduced by ODA.

## The Millennium Development Goals: Progress Report

In the African Economic Outlook 2002/2003, the continent's prospects of attaining the Millennium Development Goals (MDGs) were assessed by extrapolating past trends of socio-economic variables pertaining to poverty reduction and socio-economic development. On the assumption that these trends would be maintained in the future, the likelihood of achieving the MDGs was assessed by comparing them with the respective rates of change required to realise the MDGs. The main conclusion of last year's report was that achieving the MDGs will be extremely difficult for African countries. Notably, for Africa as a whole, the AEO 2002/2003 concluded that income poverty would be reduced, on present trend, from about 48 per cent in 1990 to about 39 per cent in 2015, far from the MDGs' 23 per cent.

This conclusion remains generally valid since no dramatic changes are expected to occur in the indicators used for assessment over one year. The AEO will, however, continue to monitor Africa's progress toward the MDGs, placing emphasis on refining the methodology of assessment, deepening the analysis by revisiting progress in individual targets and their stipulated indicators, and examining policy issues pertaining to the attainment of MDGs.

In assessing progress towards the MDGs, it is important to note that the outcome depends not only on the target against which progress is measured, but also on the yardstick that is used to measure the pace of progress. To recall, the MDGs are eight-fold. The first six relate to income poverty and its social manifestations, including poor health and inadequate education opportunities. They are (1) Eradicate extreme poverty and hunger: halve the proportion of people with less than one dollar a day and halve the proportion of people who suffer from hunger by 2015; (2) Achieve universal primary education by 2015 and ensure that boys and girls alike complete primary schooling; (3) Promote gender equality and empower women - eliminate gender disparity at all levels of education; (4) Reduce child mortality -reduce by two thirds the under-five mortality rate by 2015; (5) Improve maternal health - reduce by three quarters the maternal mortality ratio by 2015; (6) 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. The seventh MDG is about ensuring environmental sustainability, while



© AfDB/OECD 2004 

A OECD Browse_it Edition • Read Only • Lecture seule

the eighth advocates international partnerships for development and addresses the issue of how developed countries could assist developing countries to attain the other seven MDGs.

In the AEO 2002/2003, countries were classified into two discrete categories, with (yes) indicating that the country has either achieved or is on track to achieve the target and (no) indicating otherwise. Admittedly, this presentation, although attractive because of its simplicity, hides important information. In this issue a more flexible criterion has been adopted. This criterion identifies five groups of countries according to their pace of progress towards the MDGs:

*i)* The countries that have already **achieved** the target;
*ii)* The countries that are **on track** for reaching the target;
*iii)* The countries that **slightly off** the rate of change required to attain the target;
*iv)* The countries that are **slipping back;** and
*v)* The countries that are **far behind**.

Further refinements for this issue are examining progress with reference to other targets pertaining to the same Goal and measuring progress using alternative indicators.

### Reducing Extreme Poverty by Half

*Income poverty*

In the AEO 2002/2003, reducing extreme poverty by half was assessed with reference to the income poverty target of halving the proportion of the population living below $1 a day in individual African countries. It was concluded that countries on course for achieving this target in Africa were the North African countries of Algeria, Egypt, Libya, Morocco and Tunisia, and Mauritius. This represented a completion rate of 10 per cent for the entire continent.

*Hunger*

In this issue, the progress towards the first Goal is further assessed with reference to the target on hunger, using the indicator of halving the prevalence of underweight children under five years of age (see Table 5). For Africa as a whole, the results show that there are five countries that have already achieved the target of halving the proportion of people suffering from hunger. These are Ghana, Libya, Namibia, Nigeria and Tunisia. There are also ten countries that are on track. There are some eight countries that are slightly off the rate of reduction to attain this target, registering an average rate of reduction of 2 per cent, compared with a required rate of reduction of 2.8 per cent per annum to attain the target.

The outcome of this assessment might appear counterintuitive if viewed against the levels of per capita income and social development in certain countries. For instance, while the results indicate that Namibia, Nigeria, and Ghana have already achieved this target, countries like Egypt and Mauritius are considered on track, while Morocco is slipping back. In interpreting these results, it must be recalled, however, that the MDGs are about progress and not about the status quo. For instance, according to the FAO[14], Ghana has managed to reduce the proportion of undernourished in the total population from 35 per cent in 1990/92 to 12 per cent in 1999/2001. By contrast, Egypt, according to the same source, has managed to reduce the proportion of underweight children under five from 4.7 per cent to 3.4 per cent, against a desired reduction to 2.3 per cent to achieve the MDGs target. Thus while the status quo is that the proportion of undernourished children in Egypt stands as low as 3.4 per cent of total population and that of Ghana stands as high as 12 per cent, the progress made by the latter towards the MDGs is faster than that of the former. Likewise, while at present the proportion of hungry people in Morocco is low by African standards, the country is classified as slipping back, because the

14. Source: FAO (2003), *The State of Food Insecurity in the World.*


© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



proportion of undernourished children increased from 7 per cent of total population in 1990 to 9.7 per cent in 1998[15].

The observations raise important issues with regard to the relationship between economic growth, poverty and social indicators. It is to be recalled in this regard that many studies on the MDGs treat the target on poverty as the principal target on the assumption that it reflects developments on social indicators pertaining to education and health services. That is, as income per capita rises, progress would also be made towards achieving other targets given the well-established positive correlation between per capita income and social indicators. For instance, infant mortality tends to fall by between 0.6 and 0.2 for a one per cent increase in per capita income[16]. However, a World Bank study has shown that the progress achieved in social indicators as a result of increases in per capita income might not necessarily be sufficient to meet the MDGs on social development. This implies that fast growth might be necessary but not sufficient to attain the MDGs on social development and that sector-specific policies are needed to tackle the pockets of poverty, malnutrition and hunger that might not be responsive to per capita income growth (see below). The low responsiveness of poverty and social indicators to economic growth reflects the structural nature of poverty in Africa.

## Achieving Universal Education

*Primary school enrolment*

The MDGs call for achieving universal primary education. Progress towards attaining this target has been examined with reference to two indicators: the net enrolment ratio in primary education and the proportion of pupils starting grade 1 who reach grade 5. It is alarming to note, however, that there are some 24 countries in Africa that have no complete net enrolment data for conducting this test. The number of countries with no data rises to 39 with regard to the second indicator. For the countries that have data, the results relating to the net enrolment ratio show that there is only one country in the whole of Africa, which has already achieved this target (Tunisia). There are 11 on track to achieve the target.

*Completion rates*

The results for the second indicator (the proportion of pupils starting grade 1 who reach grade 5) are even worse. They point to the problem of dropouts and repetitions. It has been estimated that more than a fifth of African children who enrol in primary school either repeat several classes or drop out of school altogether. The incidence of dropouts is, however, much more serious in sub-Saharan African countries such as Angola, Madagascar and Mozambique where more than half of the children who enrol in primary school do not reach grade five. There are major disparities, however, within Africa with regard to these indicators. At the primary level for example, data on the percentage of primary school children reaching grade five revealed that, in North Africa, 85 per cent of all the children who enrol in primary school reach grade 5. This compares very favourably with the rest of Africa where only two-thirds of primary school pupils reach grade five. While the poor completion rates partly reflect poor educational inputs on the supply side, they are also influenced on the demand side by the costs to the families of sending children to school. Many children work to supplement family income directly and indirectly. Such child labour may deprive children of education and exposes them to overwork and exploitation.

## Eliminating Gender Disparity

The MDGs call for eliminating gender disparity in primary and secondary education preferably by 2005, and at all levels of education no later than 2015. Progress

15. These are the latest figures for Morocco. See *"Rapport national relatif aux Objectifs du Millénaire pour le Développement"*, Kingdom of Morocco, December 2003.

16. See Filmer, D. and L. Pritchett (1999), "The Impact of Public Spending on Health: Does Money Matter?" in *Social Science and Medecine*, and Pritchett, L. and L. Summers (1996), "Wealthier is Healthier", in *Journal of Human Ressources*.



© AfDB/OECD 2004

Browse_it Edition • Read Only • Lecture seule



## Table 5 - Progress Towards Achieving Millennium Development Goals

| | Goal 1 | Goal 2 | | Goal 3 | | Goal 4 | Goal 7** |
|---|---|---|---|---|---|---|---|
| | Eradicate extreme poverty and hunger | Achieve universal primary education | | Promote gender equality and empower women | | Reduce child mortality | Ensure environmental sustainability Target |
| **Indicator** | Proportion of undernourished people | Net Primary enrolment ratio | Children reach grade 5 | Female primary schooling ratio to male ratio | Female secondary schooling ratio to male ratio | Under five mortality rates | Access to improved safe water |
| **AEO countries** | | | | | | | |
| Algeria* | Slipping back | On track | On track | On track | On track | Slipping back | On track |
| Botswana | Slipping back | Slipping back | On track | Achieved | Achieved | Slipping back | .. |
| Burkina Faso | on track | Slipping back | .. | Far behind | .. | Far behind | .. |
| Cameroon* | Slightly off | .. | .. | .. | .. | Slipping back | On track |
| Côte d'Ivoire | Slightly off | Far behind | Far behind | Far behind | Far behind | Slipping back | On track |
| Egypt | on track | On track | .. | On track | On track | On track | On track |
| Ethiopia | Slipping back | Far behind | .. | Slipping back | Slipping back | Far behind | Far behind |
| Gabon* | Slipping back | .. | .. | Achieved | .. | Far behind | .. |
| Ghana | Achieved | .. | .. | On track | .. | Slightly off | On track |
| Kenya | Far behind | .. | .. | Achieved | On track | Slipping back | Slightly off |
| Mali | Far behind | Far behind | On track | On track | Slipping back | Far behind | On track |
| Mauritius | on track | On track | On track | Achieved | Achieved | On track | Achieved |
| Morocco* | Slipping back | On track | Far behind | On track | On track | On track | On track |
| Mozambique | Slightly off | Slipping back | .. | Far behind | Far behind | Far behind | .. |
| Nigeria | Achieved | .. | .. | Slightly off | .. | Far behind | Slightly off |
| Senegal | Slipping back | On track | On track | On track | Far behind | Far behind | On track |
| South Africa | .. | On track | .. | On track | Achieved | Slipping back | .. |
| Tanzania | Slipping back | Far behind | Far behind | Achieved | On track | Far behind | Far behind |
| Tunisia | Achieved | Achieved | On track | Achieved | On track | On track | .. |
| Uganda | Slightly off | .. | .. | On track | Far behind | Slightly off | Far behind |
| Zambia | Slipping back | Slipping back | .. | On track | .. | Slipping back | On track |
| Zimbabwe | Far behind | .. | .. | Achieved | Far behind | Slipping back | On track |
| Achieved | 3 | 1 | 0 | 7 | 3 | 0 | 1 |
| On track | 3 | 6 | 6 | 9 | 6 | 4 | 10 |
| Slightly off | 4 | 0 | 0 | 1 | 0 | 2 | 2 |
| Far behind | 3 | 4 | 3 | 3 | 5 | 8 | 3 |
| Slipping back | 8 | 4 | 0 | 1 | 2 | 8 | 0 |
| No data | 1 | 7 | 13 | 1 | 6 | 0 | 6 |
| **All African countries** | | | | | | | |
| Achieved | 5 | 1 | 0 | 13 | 7 | 0 | 3 |
| On track | 10 | 11 | 7 | 16 | 12 | 11 | 12 |
| Slightly off | 8 | 0 | 0 | 2 | 0 | 3 | 4 |
| Far behind | 8 | 9 | 5 | 9 | 11 | 27 | 9 |
| Slipping back | 16 | 8 | 2 | 1 | 2 | 11 | 0 |
| No data | 6 | 24 | 39 | 12 | 21 | 1 | 25 |

* Data are from the last MDG Country Report
** Analyses are from the UNDP (2002), *Human Development Report*, Washington DC.
**Sources:** Data: FAO (2003), *The State of Food Insecurity in the World*, Rome.
World Bank (2003), *Word Development Indicators 2003*, Washington DC.

towards attaining this target has been examined with reference to two indicators: the ratios of girls to boys in primary, and in secondary and tertiary education. It is to be noted that 12 and 21 countries respectively had no data for these two indicators. However, African countries seem to be making good progress towards closing the gender gap in primary education, with 13 countries having already achieved the target and



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only • An



16 countries on track. The results for progress in promoting gender equality and empowering women in secondary education are not as good: only 7 countries have already achieved the target; 12 are on track. The steady reduction of gender disparities in primary education means that, though the region may not fulfil the MDG target by 2005, it will probably do so by 2015. The potential for achieving gender equality in secondary schools is thus a real possibility.

### Improving Health

*Infant mortality and maternal health*

Africa's progress towards the MDGs is far behind in the areas related to health, particularly infant and maternal health. Despite recent efforts, a number of challenges remain in the health sector. African countries' health indicators such as infant mortality rate, life expectancy at birth, maternal morbidity and mortality rates are among the worst in the world. Poor children and women are the most vulnerable to illness and disability. One in six children born in low-income Africa will die before the age of five. More than a third of young children are malnourished. Maternal mortality rates are as high as 1 600 per 100 000 births for Africa.

Reducing the under-five mortality rate by two thirds is the fourth MDG target. No country has yet attained this target, though there are 11 African countries on track. It should be noted that, among all the targets examined, the one on reducing child mortality has the least satisfactory performance. This indicates that more needs to be done in health services in general, and for infant health in particular.

### Environment

Finally, on environmental sustainability, the MDGs call for halving the proportion of people without sustainable access to safe drinking water by 2015. The proportion of population with sustainable access to an improved water source is used as an indicator to evaluate progress. For Africa as a whole, the record of progress is alarming, with only 3 countries having achieved the target (Comoros, Côte d'Ivoire, and Mauritius), and 12 countries on track to achieving it. These results are distressing, since access to safe water is a necessary condition for making progress in all other areas related to socio-economic development. This is particularly the case as primary causes of disease and illness amongst the poor are water-related. A review by the World Health Organisation demonstrates that improvements in water supply and sanitation have a direct and significant payoff in reducing diarrhoeal morbidity, particularly among children. It has been shown that when both water quality and water quantity are improved, morbidity rates can be reduced by some 37 per cent[17].

## Governance and Political Issues

### The NEPAD process

*The NEPAD initiative*

Since its adoption as Africa's main development strategy in July 2001, the progress that has been made in furthering the ambitions of The New Partnership for Africa's Development (NEPAD) contrasts with the overall failures of previous African development plans. Earlier plans failed because they were not owned by Africans. NEPAD, instead, is based on the "twin concepts" of ownership and partnership, in which Africans take the lead and the continent's development partners back their efforts. NEPAD has made welcome progress in tackling the challenges of Africa's development, including the following:

- NEPAD has generated a new dialogue between Africans and Africa's development partners. This new partnership has resulted in African issues being considered more seriously at global forums, as well as resulting in increased official

17. For a discussion of the relation between water supply and socio-economic development see W.T Oshikoya and M. Nureldin Hussain (2002), "Infrastructure for Economic Development in Africa", a paper presented at the ADB/OECD Forum on African Perspectives, Paris.

OECD Browse_it Edition • Read Only • Lecture seule

development assistance (ODA) to Africa, as documented earlier in the first chapter of this overview.

- African leaders are showing greater political will and involvement in creating the conditions for sustainable development and implementing the socio-economic development programmes. NEPAD has initiated closer networking among Africa's development institutions. Institutions such as the African Development Bank, the Regional Economic Communities and the UN Economic Commission for Africa have enhanced their joint efforts towards the implementation of Africa's socio-economic development programmes.

The international community has shown more resolve than ever before in supporting the policy framework underpinning NEPAD. In 2002, the UN General Assembly passed three resolutions to accept NEPAD formally as the policy framework for engagement with Africa, and urged the international community to organise support for NEPAD in accordance with its priorities. In May 2003 the UN formally established the Office of the Special Adviser on Africa, to be responsible for co-ordinating global advocacy in support of NEPAD.

The NEPAD process is moving gradually from design to implementation. Progress was achieved in 2002 in the preparation of detailed implementation plans for key NEPAD priorities, including Peace and Security, the Declaration on Democracy, Political and Corporate Governance and the African Peer Review Mechanism (APRM). The Joint Africa/G8 Plan to enhance Africa's capability to undertake Peace Support Operations, which was launched in 2003, is unique in its effort to address conflicts on the continent. The Comprehensive African Agricultural Development Programme (CAADP), prepared in 2003 in collaboration with the FAO, is being used as a basis for preparing detailed and costed country- and region-specific projects for implementation. The Infrastructure Short-Term Action Plan (STAP) prepared by the African Development Bank, initially produced in 2002, was revised in 2003. This Plan includes high priority projects in energy, transport, water and sanitation, and information and communications technology. The projects and programmes under the STAP aim to improve food security and the productivity of the agricultural sector in various regions of the continent.

*The African Peer Review Mechanism*

The launch of the African Peer Review Mechanism (APRM), which formally came into being at the Seventh Meeting of NEPAD Heads of State and Government Implementation Committee (HSGIC) in May 2003, represented an important development for NEPAD. The APRM is seen as "a system of voluntary self-assessment and constructive peer dialogue and persuasion," and aims to ensure compliance by Participating States to agreed political, economic and corporate governance values, codes and standards. By February 2004, 17 countries had signed the APRM's Memorandum of Understanding: Algeria, Angola, Burkina Faso, Cameroon, Congo, Ethiopia, Gabon, Ghana, Kenya, Mauritius, Mali, Mozambique, Nigeria, Rwanda, Senegal, South Africa and Uganda. Six eminent Africans have so far been appointed to begin directing the work of the APRM. Review is expected to take place in 2004 for Ghana and Rwanda, in April and June respectively. The review process for Kenya and Mauritius will also be initiated, with completion due in early 2005.

The basis for the APRM is the assessment of the political, economic and institutional aspects of governance through a range of indicators. These are: political rights and institutional effectiveness (for example the functioning of the legislature, judiciary, and executive, as well as the non-governmental sector); economic management (for example macroeconomic management, public financial management and accountability, monetary and financial transparency, accounting and auditing systems, and regulatory oversight); and corporate governance.

The APRM is at the heart of NEPAD and the success of the initiative will clearly depend on the extent to which African leaders respect the principles of good





© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only


political and economic governance that underpin it. It is very important that the process be seen as credible by ensuring that the approach of the examiners is objective, fair and consistent. The implementation of the criteria also has to be protected from political interference and should be objective and technically credible. This is essential to address the concerns of some countries that still view the APRM as a threat to sovereignty.

*The next steps*

NEPAD's continued success will depend on several critical developments. These include: the degree of implementation of the APRM and the extent to which the principles of good political and economic governance are respected; the depth of the backing that NEPAD will generate within civil society and the private sector in support of its objectives; the strength of the new strategic partnerships that NEPAD will forge with the international community; and the success that the initiative will have in designing and implementing projects and programmes that are in line with the spirit and letter of NEPAD.

As NEPAD moves towards implementation, it is important that appropriate projects and programmes are drawn up at the country and regional levels, and that effective institutional structures exist for their implementation. In this regard, the Heads of State have designated the African Union (AU) as the apex body of NEPAD to drive the whole process at the continental level. However, given that AU itself is still in the process of establishing its units, the Heads of State have mandated the NEPAD Secretariat to continue working on the elaboration of the NEPAD framework and programme, and on the monitoring of its implementation. At the sub-regional level, the Regional Economic Communities (RECs), including intergovernmental institutions or other sub-regional organisations representing civil society and the private sector, are expected to be actively involved. NEPAD and the RECs have also designated established African institutions to assist in the development of specific initiatives and programmes. While NEPAD has made some progress at the continental and sub-regional level with respect to identifying institutions and structures for its implementation, it will still need to address the issue of implementation at the national level. Clearly, NEPAD, in collaboration with national authorities will need to develop national mechanisms for its implementation and for collaboration with external partners.

While NEPAD has gained broad acceptance among Africa's political leaders, as well as Africa's external development partners, there is also a need to get the general support of civil society and of the private sector in Africa. Some important initiatives have been taken in this regard. In 2002, the African Development Bank arranged consultations in Abidjan with civil society organisations on NEPAD, as well as a symposium and a workshop during its Annual Meeting in Addis Ababa; the Government of Benin hosted a conference of Parliamentarians in Cotonou in 2002; and the Government of Senegal organised a Private Sector Forum, also in 2002. More, however, needs to be done to build on these initiatives and to establish broad societal support.

## Domestic Governance Issues

*Political governance and socio-economic development*

Economic and social development cannot take place without stable political and civil conditions and institutions that secure private property rights, ensure personal liberty, enforce contracts, and provide responsive, transparent and accountable governments. Good national and international governance facilitates the efficiency of society as an economic organisation aiming to achieve maximum prosperity for the largest number of people.

The state should be a reliable partner for establishing a good regulatory framework, seen as necessary to optimise the private sector's activities. The current consensus for rapid development and poverty alleviation, therefore, implies that, while the state should be less involved as a direct economic actor, it should enhance its capacity to act as a facilitator between different economic interests in society, and maintain acceptable

OECD Browse_it Edition • Read Only • Lecture seule

standards of human rights, social justice, labour conditions and environmental protection.

Democracy is the *sine qua non* for long-term economic development; for democracy ideally permits all parts of society to communicate with each other and to reach compromises that reflect their different opinions. Democracy maximises commitment to the compromises reached, and therefore renders governance at once more equitable, transparent and legitimate. Conversely, phenomena such as economic mismanagement and distorted information, weak regulatory environments, bureaucratic inefficiency, corruption, economic crime, disrespect for human rights and civil strife take root where democracy, the rule of law and human rights are weak or absent. Often such societies are also less able to compete economically on the global level. Thus, the issues of politics, conflicts and corruption have become closely interrelated with each other and intertwined with the question of development and poverty reduction. While good politics foster economic development and social cohesion, and reduce corruption, bad politics breeds corruption, retards socio-economic development and may lead to civil conflicts and wars. Civil wars and armed conflicts are closely linked to the unwillingness or incapacity of social groups and their leaders to transcend the boundaries of religion, ethnicity and race. In the same vein, corruption undermines development; it is both a symptom and an outcome of poor governance.

*The African democracy record*

Since independence, African countries have experienced various forms of political governance regimes, ranging from extreme totalitarian states to the liberal democratic tradition. The attributes of the political leadership and the state with respect to overall economic management, rule of law, and respect for private property have been influenced significantly by the prevailing political governance regimes. Since the 1990s, and most notably following the end of the Cold War, the political environment in Africa has begun to change dramatically. This recent period has been characterised by popular demands for democracy and the subsequent collapse of most military and autocratic regimes on the continent. After years of military rule, one-party states and authoritarian regimes, there has been a resurgence of democracy and popular participation in governance.

Africa's record in the domain of politics is documented in the 2001 African Development Report published by the African Development Bank. According to this study, there are five principal political regime types in Africa. The first is "dominant party rule", which is practiced by 22 countries, with a population of 325 million. Second, there is the "presidential-parliamentary" type, operating in 12 countries with a population of 200 million. Third, there is "presidential-legislative democracy", practiced in six countries with a population of 81 million. Fourth, there is the "military backed dictatorship", incurred by three countries with a population of 58 million. Fifth and finally, "civilian-military" regimes were observed in three countries with a population of 65 million.

Thus, it is clear that African countries have made some progress towards democracy. Nonetheless, more is needed to improve citizen influence and oversight over the conduct of government, to elect responsive and responsible leadership and to promote social reciprocity. There are still many parts of Africa where progress needs to be made towards greater adherence to good politics including basic political order, political legitimacy and rule of law. Furthermore, there are still cases where democracy is superficial, based on ethnic elections that do not reflect the judgement of the people on the performance of government. More will also need to be done to improve the degrees of political equality, inter-group 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 lacking, as evidenced by the number of African countries mired in instability and conflicts.

Some of Africa's hitherto most intractable trouble spots, such as Angola, Congo (DRC), Liberia and Sierra Leone, are beginning to recover from years of conflict, but these countries still face enormous humanitarian and unresolved security issues. According to data released by the United Nations' Office for the



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • An OECD Browse_it Edition • Lecture seule



Coordination of Humanitarian Affairs, in March 2004 there were close to 6.3 million refugees and internally displaced people in the Great Lakes region, and close to 2.3 million in West Africa. Moreover, several civil strife crises, such as in Burundi, Côte d'Ivoire and Somalia, are still underway, and more will likely emerge in countries where democracy has not yet taken root.

## Energy Supply and Poverty

Africa has enormous potential in both fossil fuels (oil, natural gas and coal) and renewable energy (biomass, hydro, solar and wind). However, this potential is still very little used, resulting in substantial energy deficits. Energy consumption is mostly of biomass. Access to modern energy sources is crucial to fighting poverty, however, because it boosts individual development by improving education and health conditions, and economic activity by modernising communications. It also upgrades the economic environment by enabling more effective public involvement, better respect for the environment and greater democracy.

### Primary Energy Potential and Production

Africa has a wealth of fossil fuels and renewable energy but production is very narrow and focused on biomass, oil, natural gas and coal. The continent has four main energy zones (Figure 10):

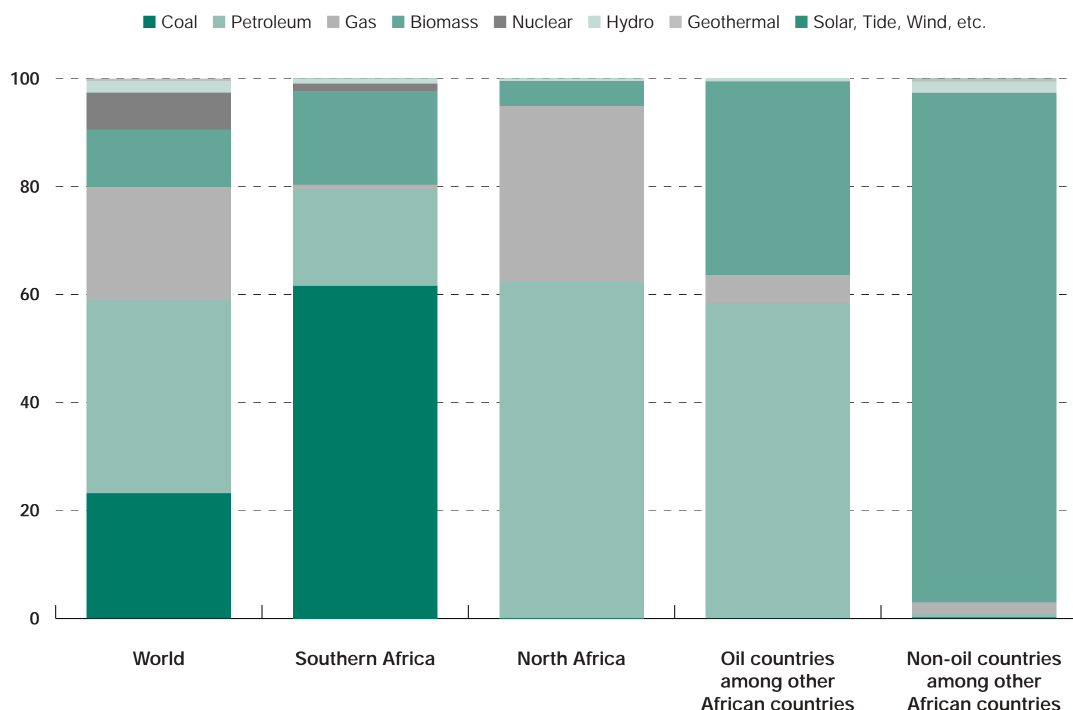
- North Africa, whose energy supply is mainly oil and gas.
- The sub-Saharan oil countries, mostly around the Gulf of Guinea.
- Southern Africa, whose energy self-sufficiency is based on coal.
- The rest of the continent, which mostly uses biomass.

*Renewable energy*

Africa's size, scattered population and plentiful plant and animal resources, mean that the continent



Figure 10 - **Energy Production in Africa and the World**




**Source:** International Energy Agency.

OECD Browse_it Edition • Read Only • Lecture seule

has a huge ***biomass*** reserve, mainly firewood and related products, and vegetation waste and animal dung recycled to produce energy. This renewable energy is becoming much less available in some areas because of deforestation. It is also a very poorly studied and measured energy source because it is gathered locally straight off the ground and is not part of the formal trade structure. However, some forms, such as sugar cane residues, bagasse, can be measured as a potential energy source. Many African countries could generate electricity by linking up with their sugar industries. So far, only Mauritius does so to any extent, producing 20 per cent of its electricity using bagasse as fuel.

***Wood and related products*** are the main energy sources for African families, especially in the countryside, because they are readily available and virtually free since property rights in forested areas are often not clear. The World Energy Council (WEC) estimates that the continent accounted for 30 per cent of world firewood production in 1999 (Asia was 45 per cent), but stocks are shrinking in some places because of excessive gathering, forcing women and children to travel further to find it. An estimated 60 per cent of African women face such a shortage (compared with 80 per cent in Asia and 40 per cent in Latin America).

Africa also has a huge ***hydro energy*** potential – 13 per cent of the world's total, according to the WEC, with a third of this potential in Congo (DRC). The WEC estimates that 21 of the continent's 53 countries could profitably produce hydropower. However, only 7 per cent of this potential is used[18], accounting for only 3.1 per cent of the world's hydro-electricity[19]. This is because African countries have difficulty finding the capital needed for the initial investment, even though hydropower is quite cheap to maintain as a production source.

Traditional funders, especially the World Bank, are increasingly cautious because of controversy about the siting of dams. Many projects have been held up – in Uganda (Bujagali), Kenya (Sondu Miriu) and Cameroon (Lom Pongar) – while the most recent dams have taken many years to build (see Box 1). They are opposed because they involve moving people from their land and destroying ecosystems.

East Africa has considerable ***geothermal*** resources along the Rift Valley, where high temperatures near the surface produce an estimated geothermal potential of 9 000 MW[20], of which only 45 MW are used in Kenya and 9 MW in Ethiopia to produce electricity. Geothermal plants exist is Algeria (100 MW) and Tunisia (20 MW) but only for direct use because the sources are not as hot.  Ten East and Southern African countries (the Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Malawi, Uganda, Rwanda, Tanzania and Zambia) announced at the April 2003 UN Environment Programme conference in Nairobi that they wanted to develop geothermal energy to produce a total of 1 000 MW by 2020. Such energy is very clean and always available, but the initial investment needed is high.

Africa has plenty of ***solar energy.*** Overall annual solar power is between 5 and 7 kWh per square metre (6-7 in the Sahel and about 5 in Central Africa), according to NASA weather maps. These figures are matched elsewhere only in the Arabian Peninsula, northern Australia and northern Chile. Yet Africa accounted for only 1.3 per cent of installed world solar energy in 1999 (mainly in Morocco, Egypt, South Africa and Senegal). It is mostly used in traditional drying of crops and its growth mainly benefits wealthier classes because of the high cost of installation.

***Wind energy*** is very little developed in Africa despite its flexibility (convenient and quick to install). The only country with substantial capacity installed is Egypt, with 15 MW and plans to boost that to 150 MW in 2002. Morocco has also begun a wind energy programme.

18. See Karekezi, S. (2002), "Poverty and Energy in Africa, a Brief Review", *Energy Policy Journal*.

19. Source: British Petroleum (2003), *Statistical Review of World Energy*, London.

20. Source: Karekezi (2002), *op.cit*.


© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

## Box 1 - The Manantali Dam

This 200 MW dam on the Senegal River, which is shared by Mali, Mauritania and Senegal and provides them with vital electricity for development, is a good example of the problems of producing hydroelectric power in Africa.

Construction began in 1981, sponsored by the Senegal River Basin Authority (OMVS), and the dam was completed in 1988, but it did not produce any current for more than a decade because the hydropower installations and electricity lines were not ready until 2002.

The project was suspended from 1989 to 1992 because of serious political and military tension between Senegal and Mauritania over access to farmland downstream from the dam. It was also delayed owing to problems raising money for its completion, stemming partly from criticism of its social consequences (displaced population), effects on health (infection of the river with bilharzias) and environmental damage (disturbing the river's annual cycle, as well as deforestation). The obstacles were only removed in 1997 when the World Bank (the International Development Agency) finally agreed to help fund it.

*Non-renewable energy*

***Oil*** is the only energy source extensively used in Africa, which had 7.3 per cent of world reserves in 1999, according to the WEC, most of it in North Africa (Libya 2.8 per cent, Algeria one per cent) and around the Gulf of Guinea (Nigeria 2.1 per cent). Africa accounted for 10.6 per of world production in 2001, according to the International Energy Agency (IEA). Of this, Nigeria provided 30.6 per cent, followed by Algeria (18 per cent), Libya (17.8 per cent), Egypt (9.8 per cent) and Angola (9.6 per cent). Medium and long-term forecasts are for more deep-water prospecting in the Atlantic. Angola is benefiting most and should have a production capacity of one million barrels a day in 2004 or 2005.

Several new producers have appeared, or are about to, in the next few years, including Sudan, Chad and São Tomé and Principe. Exploration and extraction are less advanced than in other parts of the world but are expanding fast, partly because Africa is a way for importers such as the United States to reduce their dependence on Middle East oil. The continent is also very much open to private companies and oil taxes are mostly quite low, at least in the short term (Table 6).

Oil provides substantial revenue for producer countries but also causes major governance problems as its management has often led to corrupt practices. Hence, in recent times, international financial institutions and others closely scrutinise exploration and extraction projects in new producer countries such as Chad (Box 2).

Africa's oil production is mostly exported and only 26 per cent of it consumed locally. This figure is only 9 per cent in West Africa and Southern Africa, while it is 44 per cent in North Africa. The low figures for Africa are partly due to the continent's very small



### Table 6 - Observed Oil Tax Burden

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| Algeria | | 74 | 74 | 76 | 71 | 69 | 71 |
| Angola | | 37 | 56 | 52 | 54 | 40 | |
| Cameroon | 62 | 60 | 45 | 58 | 53 | 61 | 66 |
| Chad | | | | | | | 10 |
| Congo | 39 | 19 | 31 | 29 | 31 | 26 | 27 |
| Equatorial Guinea | 13 | 22 | 15 | 17 | 24 | 25 | 25 |
| Gabon | 46 | 60 | 32 | 45 | 50 | 40 | 39 |
| Saudi Arabia | | | 62 | 81 | 82 | 71 | |
| Sudan | | | | 42 | 46 | 44 | |
| United Arab Emirates | 77 | 69 | 56 | 70 | 75 | 77 | |

**Source:** Agence Française de Développement.

OECD Browse_it Edition • Read Only • Lecture seule

## Box 2 - Chad, A New Oil Producer: Has it Learned from Experiences Elsewhere?

Oil exploration has been going on in Chad for more than a quarter of a century but work to start production at the Doba oilfield did not begin until 2000, mainly because of the country's great political instability before then. The Doba Basin is a huge field thought to contain more than 150 million tonnes and should make Chad one of the top five producers in sub-Saharan Africa. Production, planned for 25 years at a rate of 225 000 barrels a day, began in July 2003.

Since the country is landlocked, considerable investment was needed, involving unprecedented involvement of the World Bank in such a project, which has been criticised by many NGOs because of the feared environmental effect of building the pipeline taking the oil to the Cameroonian port of Kribi. Funding for the project has strict conditions to ensure that revenue from it is used to improve governance and fight poverty.

The first phase of the project involved major construction, notably the pipeline, providing jobs for local people and business for local sub-contractors. However, the French Development Agency notes that the trickle-down was fairly small (only 15 per cent of the investment money was spent locally) due to the country's undeveloped and informal industrial and commercial base faced with the oil companies' requirements and the high-tech nature of the oil sector investment. In the long term, the new oil will mean increased government revenue, which is expected to double in 2004.

It was not clear, however, whether Chad would fully use its bonanza to significantly improve local living standards. A 1998 law on management of oil revenue only applies to direct earnings, not indirect revenue (45 per cent of the total), such as tax on the oil companies and the pipeline, which is part of state revenue without any special monitoring. Without better governance, oil earnings could generate military spending and corruption as in Angola, where Human Rights Watch says there was a $1.2 billion gap between oil revenue actually received by the government in 2002 and how much it said it had received, at a time when the country had 4.3 million civil war refugees.

Chad has a long history of north-south tension with which its weak democratic structure cannot cope. Strengthening institutions is also a much slower process than building a pipeline. They remain rudimentary and training, justice and democratic institutions are not seen as a priority.



refining capacity – only 3.6 per cent of the world total while it produces 10.6 per cent of the world's oil. Africa is thus paradoxically a major importer of oil products (39 per cent of its total energy imports, compared with the world average of 19 per cent), which is a very heavy macroeconomic (budget and current account) burden.

Worldwide demand for ***natural gas*** is growing fast because it is relatively clean. Africa had 7.5 per cent of the planet's gas reserves at the end of 1999, mostly in Algeria (3 per cent of the world total) and Nigeria (2.3 per cent), according to the WEC. This is greater than its oil reserves, but very poor infrastructure prevents full extraction and export of gas except from North Africa. Algeria is the continent's main producer (and the world's second biggest) and Nigeria is only ninth, behind Egypt and Libya, because half its production is burned off.

Africa accounted for 5.6 per cent of world ***coal*** reserves in 1999, 90 per cent of it in South Africa, according to the WEC. South Africa is in ninth place worldwide, after the United States (25 per cent), Russia (16) and China (11.6), but is the third biggest exporter. The only other African countries with significant coal reserves are Botswana and Zimbabwe.

There is virtually no ***nuclear energy*** in Africa and in 2002 South Africa was the only producer (7 per cent of the country's energy output). Some countries, such as Morocco, plan to develop nuclear power.

### *Energy Consumption*

Energy supply in Africa is small, so per capita consumption is also very low, at an average 0.5 toe (tonnes of oil equivalent) compared with 1.2 worldwide, according to the IEA. Africa's energy consumption constitutes 5.5 per cent of world consumption while the continent's population is 13.1 per cent of the world total. Consumption is mostly of biomass, oil products and electricity. Modern energy sources (oil products and



© AfDB/OECD 2004

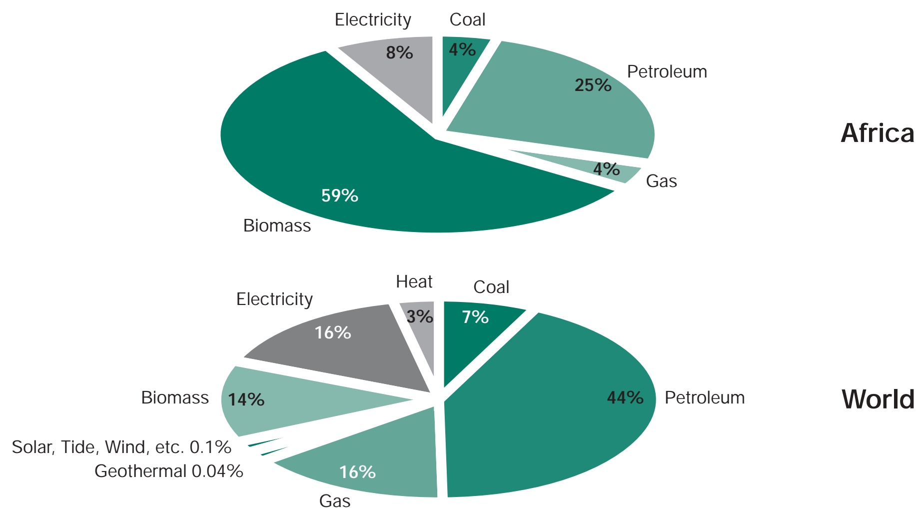
An OECD Browse_it Edition • Read Only • Lecture seule

electricity) are mostly used by industry and transport. Household energy is largely biomass (Figure 11).

The IEA estimates that 89 per cent of the population of sub-Saharan Africa use biomass as energy for all their needs (mainly lighting, cooking and heating). Consumption of biomass varies by region and is more intense in the countryside, where it is more available compared with other sources of energy. In towns and cities, biomass comprises mainly domestic waste and competes with modern forms of energy. Suburban areas are often far from biomass sources, while modern forms of energy are also often poorly supplied.

The general absence of property titles to forested areas where firewood is gathered makes people wrongly see these places as sources of "free" material and leads

## Figure 11 - Structure of Energy Consumption in Africa and the World




**Source:** International Energy Agency.

## Table 7 - Average Calorific Value of Main Energy Sources

| Energy sources | Average calorific value in tonnes of oil equivalent |
|---|---|
| Lignite / Sub-bituminous coal | 0.2 |
| Peat | 0.2 |
| Wood | 0.25 |
| Lignite and peat bricks | 0.48 |
| Coal | 0.615 |
| Coke | 0.65 |
| Liquid extracted from biomass | 0.65 |
| Coal briquettes | 0.7 |
| Charcoal | 0.7355 |
| Petroleum coke | 0.74 |
| Residual fuel oil | 0.96 |
| Crude oil | 1.034 |
| Gas/diesel oil | 1.035 |
| Kerosene | 1.045 |
| Refinery feedstock | 1.07 |
| Motor gasoline | 1.07 |
| Natural gas liquid | 1.1 |
| Ethane | 1.13 |
| Refinery gas | 1.15 |
| Liquid petroleum gases | 1.18 |

**Source:** International Energy Agency and US Department of Energy/Energy Information Agency.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

to their over-use, eventually obliging people to travel further to get it, with major physical consequences. The small energy efficiency of biomass also greatly increases the cost of its use per calorie consumed (Table 7). Moreover, poor combustion methods not only mean a small energy efficiency, but they also endanger health.

### Consumption of Modern Forms of Energy and Poverty Reduction

Energy is not something in demand for itself but is a vital input for consumption and production. Absence of modern forms of energy at a reasonable price is a serious poverty trap in Africa, while adequate supply of energy can lead countries into a virtuous circle of development where better living conditions, increased economic activity and government efficiency are facilitated and mutually reinforced (Figure 12).

*Energy and standard of living*

Access to good-quality energy can greatly improve people's standard of living.

A suitable supply of energy can help relieve hunger and malnutrition because it makes cooking and food conservation (by refrigeration) possible. It boosts productivity in the food chain (growing, processing and transport) and can thus provide further energy. It allows the development of modern agricultural methods, such as irrigation, which in turn raise yields and production.

Access to modern forms of energy is also vital to better health by improving food hygiene through the pumping of drinking water and better food conservation and preparation. It is less dangerous to use and avoids indoor pollution and associated respiratory disease. It reduces the often very physically exhausting and time-consuming job of gathering firewood and water from far away. It also improves medical supplies (refrigeration of medicine and vaccines and sterilisation of equipment) and thus meets local health needs.

It boosts school enrolment by freeing children from household work such as wood and water gathering and allows them to study. Electricity makes evening classes and studying late at home possible. Light, heating and proper sanitation, along with access to proper educational equipment and educational media, greatly improve the learning environment.

Modern energy frees women from wood and water gathering, traditional food preparation and field labour, and improves the health conditions of giving birth, directly increasing women's life expectancy. It is also a vital element in improving safety in towns and cities, for example through street lighting.

The improving standards of living associated with modern forms of energy directly increase economic activity through longer life expectancy, improved health and better training for workers.

*Energy and economic activity*

More and higher-quality energy directly increases production, allowing longer hours of work and, with electricity, fewer stoppages because of power cuts.

It leads to better use of other production inputs. Machinery can be badly affected by lack of energy (electricity cuts can damage computers, for example) and poor supply to industry limits the use of delicate or sophisticated technology that would otherwise increase production. Business conditions benefit at once from better transport and communications that mostly depend on adequate energy supply.

Energy deficiencies slow the development of activity that can help economies diversify when applied to key parts of the production process. For example, Sahel countries have developed a comparative advantage in cotton production but the cost and poor quality of energy supplies prevents them using it to profitably specialise in spinning, which needs a lot of electricity.

*Energy and effectiveness of government intervention*

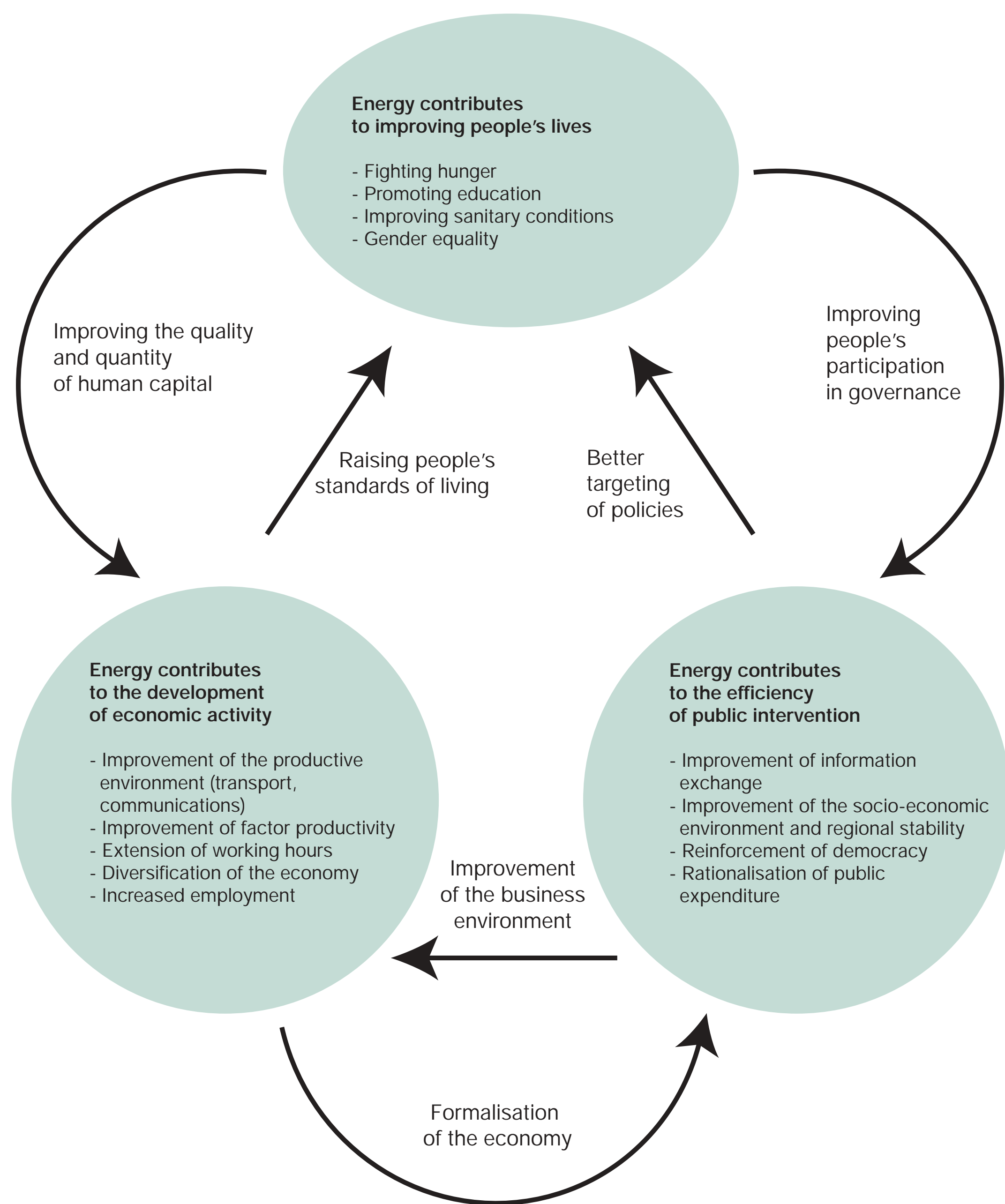
Better energy supply allows governments to provide more and cheaper education, health and communications. Their job of ensuring public safety is also made much easier with street lighting.



 © AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

Figure 12 - **Matrix of the Links between Energy and Development**




**Source:** Authors.

More energy increases the flow of information through the media and transport. Good information is vital for taking political decisions related to people's needs and choosing the most suitable policies in local and national conditions.

Information flow and better living conditions help development and citizen participation in national decisions, making institutions more democratic and obliging governments to be more open and responsible.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

Regional agreements on electricity production and distribution can encourage governments to preserve regional stability and unity.

## Electricity Sector Reforms

The above analysis has highlighted the limited access of the population to energy compared to the great potential offered by the continent. Past experience in Africa and internationally, shows that establishing a proper energy sector regulatory framework is crucial to expanding capacity and promoting greater access. The importance of regulation is particularly critical in the power sector, where the network utility nature poses specific policy challenges to the public authorities.

### *Obstacles to Developing the Sector*

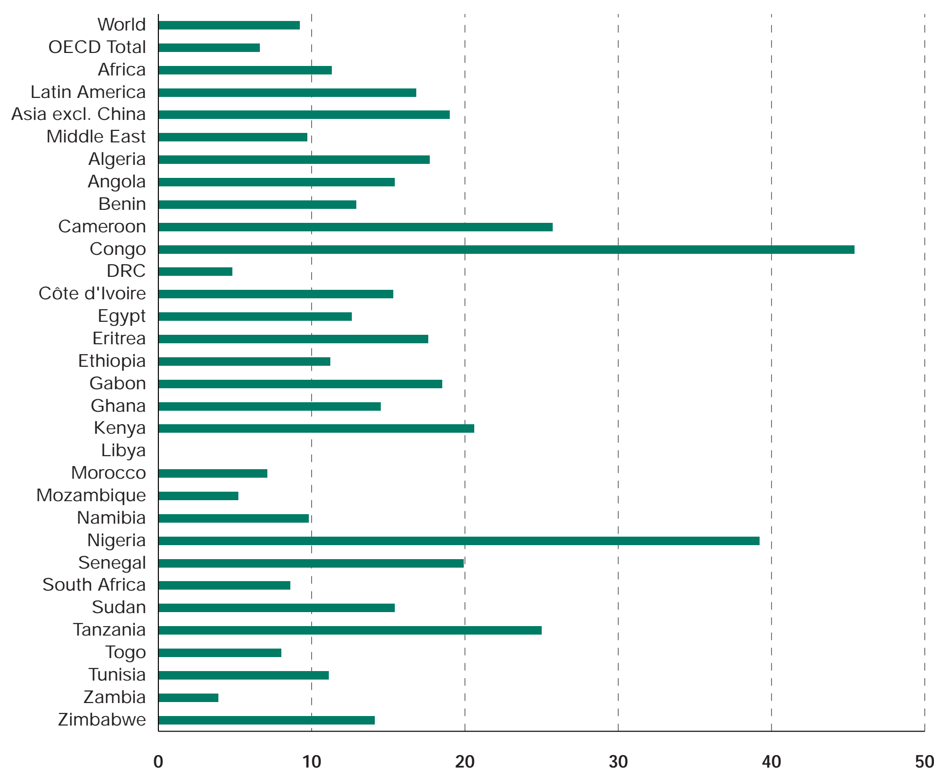
Africa has one of the world's lowest electrification rates, with only 34.3 per cent of the population hooked up to supply in 2000, compared with 40.8 per cent in South Asia, 86.6 per cent in Latin America, 86.9 per cent in East Asia and 91.1 per cent in the Middle East, according to the IEA. This figure hides the big difference between North Africa (more than 90 per cent access) and sub-Saharan Africa (22.6 per cent). Rural populations were worse off, with only 7.5 per cent having access. OECD member countries and countries in transition are virtually 100 per cent electrified.

Among the obstacles to electricity expansion in Africa are the scattered population and the preponderance of rural dwellers, which make it very hard to use economies of scale. Towns and cities are better served because of high population concentration and they will probably get priority in future electrification. The urban population is expected to grow substantially over the next 20 years, but about half of all Africans will still be living in the countryside in 2025.

On top of this, existing power facilities in Africa are poor and badly maintained, as shown by the high



Figure 13 - **Electricity Losses in 2001** (percentage of supply)




**Source:** International Energy Agency.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • A Lecture seule

wastage of current (Figure 13). Investment in the sector is up against severe government budgetary limitations and an almost complete lack of energy regulation. The poor state of grids means higher charges for the consumer, reducing the incentive to pay bills and leading to theft of current. Such under development encourages people to maintain other forms of energy (usually kerosene) in reserve and to use biomass.

### Shortcoming of State-Owned Power Utilities and Driving Forces behind Reforms

Electricity-sector reforms have accelerated over the past decade in developed and developing countries, motivated by a new approach to how the industry should be owned, organised and regulated. Whereas pressure for electricity reforms in industrialised countries was driven by excess capacity and the need to reduce dependence on oil for power generation, in developing countries reforms were mainly motivated by dissatisfaction over the poor technical performance of state-owned electricity companies and the inability to finance power-sector expansion.

The reform process produced mixed results. In some countries the existence of an autonomous regulation was successful in attracting investment and increasing access for the population. In others, an incomplete process, where the regulatory framework was not in place at the time of opening up to the private sector, jeopardised the success of the reform. This reveals the crucial importance of a proper regulatory system to facilitate the transition towards private control.

The strategic nature of power utilities for the well-being of the population and as a tool for distributive policy making has historically justified government ownership. In addition, owing to economies of scale and the high sunk costs associated with their structure, they naturally led to market concentration. The market structure was therefore dominated by state-owned national power utilities with legally endowed monopolies and vertically integrated supply chains. National, state or municipal governments traditionally owned the three components of the industry from generation to transmission (high-tension grid to move electricity from generation to the distribution centres) and distribution (low voltage grid and transformers to distribute electricity to consumers).

Over the past two decades there has been an increasing awareness that state ownership, in the absence of forces of competition or profit incentives to improve performance, leads to excessive costs, low service quality, poor investment decisions and lack of innovation. The bad performance of the electricity sector was mainly translated into poor delivery of services, hampering the expansion of access to electricity service for the population.

Very low operating efficiency, lack of maintenance, illegal connections and financial restrictions to invest resulted, particularly in sub-Saharan Africa, in unreliable supply, as demonstrated by high transmission and distribution losses, power blackouts or brownouts. According to the International Energy Agency, with the exception of a few southern African countries, such as South Africa, Mozambique and Zambia, sub-Saharan African countries' power-system losses exceed the world average of 10 per cent, reaching more than 25 per cent in Tanzania and Cameroon.

The inability of state enterprises to finance new investment in the sector and to maintain existing facilities was due to mismanagement and related inefficiency in collecting the revenue from consumers, as well as low tariff setting resulting in poor economic efficiency and a poor return on investment. The non-payment of bills and the consequent debt accumulated by customers and in many cases by the governments and parastatals did not help to ease the financial constraints, exacerbating the already poor financial state of utilities. For instance, in January 2002, the government of Kenya owed to its national utility approximately $130 million[21]. In addition, reflecting a widespread policy of high price subsidisation, the average price of electricity in most African countries

21. See Wamukonya, N., (2003), "African Power Sector Reforms: Some Emerging Lessons", *Energy for Sustainable Development*.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

did not allow state entities to cover their costs and was often far below the long-run incremental cost of expanding the system.

Against this background, more than 30 African countries have started an electricity reform programme opening up to the private sector. In the majority of cases, the reform was advocated and encouraged by international financial institutions that often adopted a "carrot and stick" structure of lending policies which were conditional on progress in power restructuring.

### The Reform Pathway

Power reform mainly aims at introducing competition in the upstream and downstream functions of industry structure and at adopting regulation of the wholesale and retail power markets to protect consumer interests.

Past experience[22] shows that a full reform programme involves the following stages (see Figure 14):

- Formulating a power policy providing the guidelines of the reform programmes. At this stage, political commitment to enacting the appropriate legislation and sustaining the reform process is crucial;
- Establishing a transparent and independent regulator for the electricity market.
- Separating the integrated structure of the incumbent power utility into generation, transmission and distribution companies (vertical unbundling) and/or into smaller district or provincial utilities (horizontal unbundling). Separating distribution from the rest of the industry allows the charging of appropriate tariffs which are essential if the sector's performance is to be turned around;
- Promoting the transfer of ownership, starting from corporatisation, leading to liberalisation in generation and in some cases ending with a complete private ownership of generation, transmission and distribution.

Reform has progressed very unevenly across African countries. Most of them did not follow the appropriate sequencing. Others are still at the initial stages of restructuring. While many countries were successful in undertaking the first step of the reform, namely the corporatisation/commercialisation of state-owned utilities, progress has been slow in setting up an independent regulatory body, changing the electricity law, restructuring and, finally, privatising generation and distribution. Also, in comparison with other developing regions, African countries appear to have lagged behind in implementing reforms in the power sector until the late 1990s. According to a 1998 World Bank survey of 115 developing countries, Latin American countries had already undertaken almost three quarters of the reform steps, whereas in Africa only one sixth of the steps had been taken.

*Political interference in the regulatory framework*

Regarding the setting up of a proper regulatory framework, only South Africa, Ghana and Côte d'Ivoire have managed to establish autonomous regulatory agencies as a result of a transparent and objective appointment process. The autonomy of other countries' regulatory agencies is highly questionable. In Malawi, Uganda, Zambia and Namibia, board members of regulatory agencies were presidential or ministerial appointees leading to political interference in the decision of the board[23]. In the case of Kenya, for instance, the Electricity Regulatory Board (ERB), established in 1997, was placed under the Ministry of Energy. Even though the ERB's mandate included the provision of licences, the Ministry has continued to perform this role. In addition, the ERB could only advise the Minister of Energy on matters relating to granting, suspension or revocation of licenses.

22. See Karekezi, S. and J. Kimani (2002), *Status of Power Sector Reform in Africa: Impact on the Poor*, African Energy Policy Research Network (AFREPREN), Nairobi; and Bacon, R.W. and J. Besant–Jones (2002), *Global Electric Power Reform, Privatisation and Liberalization of the Electric Power Industry in Developing countries,* World Bank Group, Washington, DC.

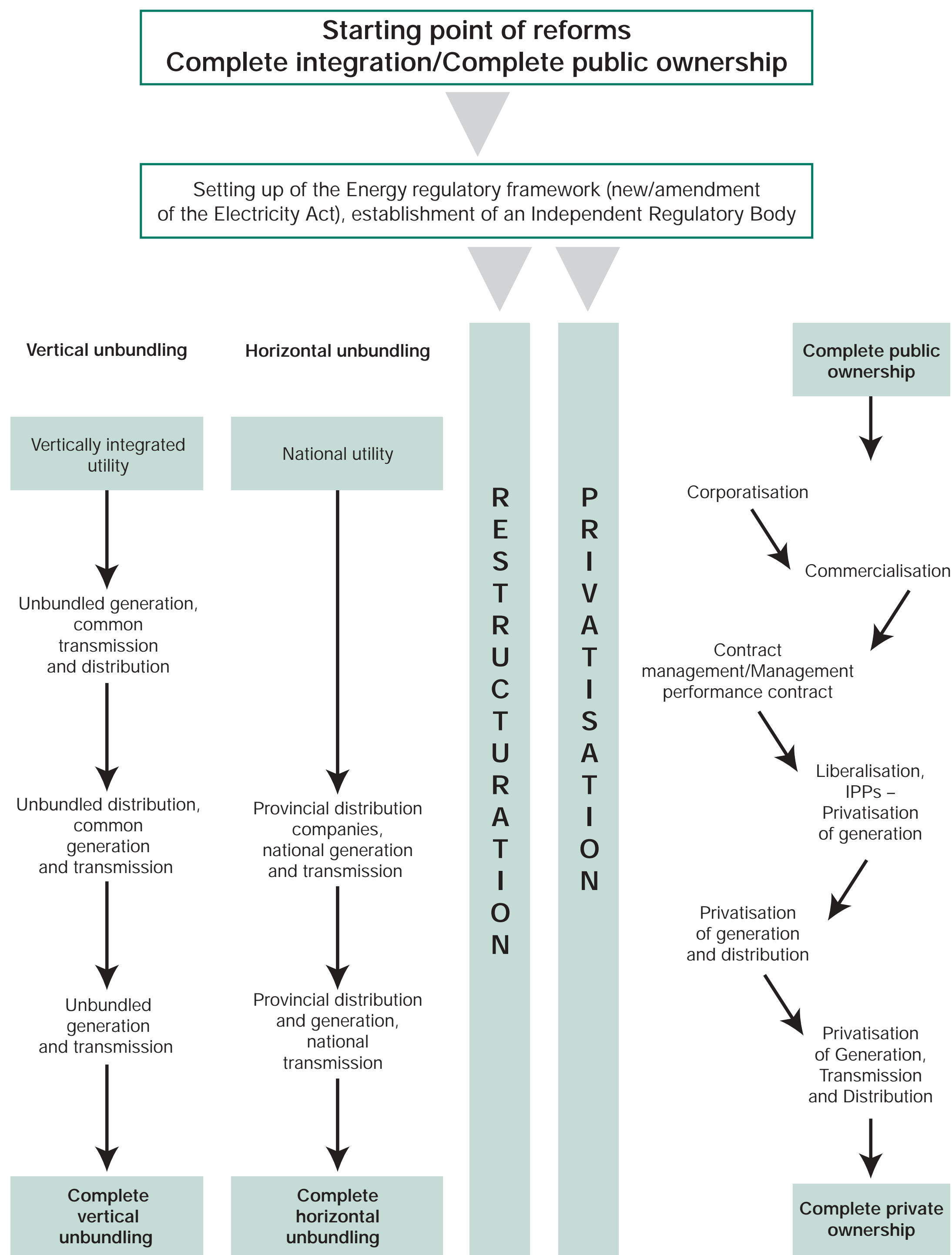
23. See Karekezi and Kimani (2002), *op. cit.*



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only


Figure 14 - **Pathway to Electricity Sector Reform**




**Source:** Based on Karakezi and Mutiso (2000), *Power Sector Reform in Sub Saharan Africa.*



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

*Diversity of experiences in implementation of unbundling and ownership transfer*

In order to enhance financial performance, many countries, especially in Eastern and Southern Africa, have limited the restructuring to the transformation of publicly owned utilities into commercial corporations subject to performance contracts and the payment of taxes and dividends.

Since one of the driving forces to reform was the need to expand energy capacity, much emphasis was originally given to increasing power generation, which corresponded also to the most efficient component of the industry. A popular method used to introduce competition into generation was to allow Independent Power Producers (IPPs) to enter the market. These IPPs often had to secure future electricity sales through a Power Purchase Agreement (PPA) with the dominant utility. This method is called the single-buyer model because the transmission company (which may be also integrated with generation and distribution) is the single buyer of all public electricity generated from a number of different producers. This approach was adopted in Algeria, Côte d'Ivoire, Egypt, Ghana, Tanzania, Morocco and Senegal. The obvious attraction of this method is that long-term PPAs permitted rapid entry of private companies without the need of rapid restructuring of the rest of the industry. Indeed, in many cases, this model has taken place in vertically integrated electricity entities where national utilities retained monopoly over the transmission and distribution of electricity.

Several countries have taken further steps towards privatisation, initiating or fully implementing vertical unbundling, including Côte d'Ivoire, Ghana, Kenya, Nigeria, South Africa, Tanzania, Uganda and Zimbabwe. However, most of these are still at the initial stages of power-sector privatisation and there are very few cases of successful completion of the reform. The case of Zimbabwe, for instance, is an interesting example of poor sequencing of reforms as the separation of generation, transmission and distribution took place before the establishment of an independent electricity regulatory commission and the setting up of a pricing policy. The uncertainty surrounding the structure and level of tariffs as well as the absence of a regulator discouraged potential investors, leading to a halt in the reform programme.

Conversely, Côte d'Ivoire represents an example of successful reform. Strong political commitment as well as good co-ordination between the government and



**Box 3 - CIE: A Successful Energy Sector Reform Driven by Strong Political Commitment**

Started in 1990, privatisation in Côte d'Ivoire was not imposed or recommended by international donors but unilaterally initiated by the government in order to improve a sector which was already performing quite well compared to other African countries but which suffered around 50 hours of power cuts per year and a total debt equivalent of to €7 billion. Thus, the Compagnie Ivoirienne d'Electricité (CIE) was founded, with EDF-SAUR taking a 51 per cent stake on the basis of a 15-year concession for power distribution, renewable for 20 years. The billing system was also restructured, and emphasis was put on staff training and quality of service, while those who did not pay their bills (especially the wealthier consumers) were deprived of power. Though potentially damaging for lower-income domestic consumers, these first measures rapidly proved to be progressive, as the tariff increases at the end of the process were very low. For instance, the renovation of facilities led to a 60 per cent reduction in the number of power cuts, while the number of subscribers grew by 50 per cent. Twelve years after privatisation, the outcome appears to be highly positive, with figures described by observers as "amazing": the number of subscribers has doubled and now stands at 800 000. Total sales have also doubled to reach CFAF 192.7 billion (€293 700). The CIE staff has grown by 20 per cent, domestic power consumption by 64 per cent and total power generation by 17 per cent. The privatisation of the power sector seems to have benefited both consumers, with an average cost per KWh that increased by only CFAF 10 (€0.015)from 1994 to 2001, and the state, which has enjoyed substantial fiscal revenues. Moreover, since September 2002, the CIE has been able to maintain supply of electricity to the whole territory, in spite of the civil war. These very positive results should make the renegotiation of the contract in 2005 relatively smooth.

**Source:** Based on Berthélemy, J.-C., C. Kauffmann, M.-A. Valfort and L. Wegner, (2004) *Privatisation in Sub-Saharan Africa: Where Do We Stand?*, OECD Development Centre Studies, Paris.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

private sector and an appropriate regulatory framework led to the successful privatisation of the power sector in 1990 resulting in improved access, expansion of generation capacity and increased revenue for the state (see Box 3).

### Impact of Power Sector Reforms on Poverty

In order to attract private-sector investment to the industry, the restructuring process requires increases in tariffs in order to allow cost recovery and efficient use of electricity. Highly unpopular, tariff increases have led to protests from industries and consumers and political debate in many countries. The central issue, however, is whether opening up to the private sector and the subsequent increase of tariffs have been detrimental to poor consumers. It is generally believed that electricity price rises are detrimental to the poor. However empirical evidence [24] shows that the poor are adversely affected by such rises only when the country electricity coverage is high, implying that both the non-poor and the poor are users. In the case of Uganda, where only 5 per cent of the population has access to electricity, only the extremely rich are connected to the grid, and hence subsidies cannot be justified on income distribution grounds. Conversely, in South Africa, 70 per cent of households have access to electricity, which means that about half of the poor are connected to the grid. In this case, price increases and the removal of subsidies strongly affect the poor. Overall, most African countries exhibit very low levels of electrification, which implies that tariff increases and the removal of subsidies will have only a minor impact on the poor. In addition, evidence suggests, as in the case of Côte d'Ivoire, that tariff increases went in tandem with improvement in quality of services (with fewer blackouts), more than compensating for price increases in the long run.

With the exception of a few cases, the past and ongoing electrification reform has been unsuccessful overall in expanding electrification, especially in rural areas. Private participation has been mainly concentrated on the generation component of the industry as the elevated cost and lack of economies of scale have discouraged investment in rural electrification. The reason for this failure also lies in the lack of rural electrification agencies in charge of developing and implementing rural electrification plans for the systematic electrification in rural areas. The notable exceptions of South Africa and Ghana confirm that the chances of improving the supply of electricity for the poor increase with effective regulation. The autonomous South African and Ghanaian electricity regulators have contributed substantially to the expansion of electrification, targeting, in particular, the rural and urban poor through an electrification fund and the application of a performance-based mechanism[25]. There is an increasing tendency towards the creation of rural electricity development authorities, as exemplified by the case of Zambia. In the latter country, after the failure of the electricity levy introduced to finance rural electrification, a law is under discussion to create a rural electrification authority that will be in charge of developing mechanisms for the operation of a grid extension network for rural electrification, as well as applying a smart subsidy for capital costs on projects designed to supply energy in rural areas.

In addition to the creation of dedicated independent agencies, energy analysts are exploring new ways of addressing the expanded electrification challenge and of attracting private-sector investments in rural energy development. A possible solution is the identification of specific targets for electrification of rural communities and urban poor as a prerequisite for setting concession agreements and moving to private ownership of distribution assets.

### Regional Integration as a Way of Improving Electricity Access

Improving access to electricity is one of the pillar proposals of the NEPAD's energy initiative. In particular, the initiative sets the objective of increasing access to reliable and affordable commercial energy supply by

24. See Karekezi and Kimani (2002), *op. cit.*

25. See Karekezi and Kimani (2002), *op. cit.*

OECD Browse_it Edition • For Read Only • Lecture seule

Africa's population from 10 to 35 per cent, or more, in 30 years. In order to achieve this, great emphasis is placed on the development of regional and inter-regional power initiatives that have been proven to bring substantial benefit to consumers in terms of lower costs and improved reliability and quality of services. Regional solutions present a series of advantages, including:

- Rationalisation of uneven distribution of energy resources across countries;
- Economies of scale and better operation of large projects conceived at regional scale;
- Creation of regional reserves that guarantee member countries' energy security;
- Larger markets with greater competition that would better attract private investors;
- Lower tariff levels from lower supply costs leading to affordability and, consequently, increasing access.

An initiative of grid interconnection for a better electricity supply and penetration is already operating in the Southern African region (the Southern African Power Pool or SAPP) and progress is being made to finalise the establishment of a West African Power Pool (WAPP).

The SAPP groups twelve member countries[26], represented by their respective power utilities. The SAPP's original primary objective was to provide reliable and economic energy to its consumers. The southern sub-network relies predominantly on thermal generation while the northern one relies on hydropower. These two systems were connected in 1995 through a major line connecting North and South (South Africa to Zimbabwe via Botswana). The success of the SAPP depends on the availability of complementary power sources, an active regional organisation for economic co-operation (SADC) and the political will to support increased regional energy trade.

The implementation of WAPP, grouping 14 countries[27] has been under discussion since the 1980s, but incurred substantial delays. These delays are mainly attributable to governments' resistance to power-sector reform, preference for "energy self-sufficiency", poor transmission capacity and political instability in some countries. Against a background of increasing demand for improved service quality and faster service extension, the process has recently gained momentum. The region's governments and utilities have taken steps to co-operate in the creation of the regional power pool. The full implementation of WAPP will be staggered in four phases over 20 years. The initial phase will mainly focus on technical assistance, capacity and institutional building to develop an efficient regional power market along with the implementation of priority interconnection lines. According to the plan, the priority interconnection lines will involve Burkina Faso, Côte d'Ivoire, Mali, Ghana, Benin and Togo and some national transmission lines will be reinforced.

The creation of regional integrated power pools is part of the long-term solution to improving access to consumers and to ensuring energy security in Africa. A crucial condition for their success is progress in the harmonisation of a common and consistent regulatory framework to attract the big investments required. However, the reluctance of many countries to engage in power-sector reform, the weakness of national grids, as well as the lack of a regulatory framework, remain serious impediments to progress in the short run. In addition to these barriers, the unstable political climate in several parts of Africa is a serious constraint to greater co-operation in the power sector.

26. South Africa, Botswana, Swaziland, Mozambique, Lesotho, Namibia, Zimbabwe, Zambia, Angola, DRC Congo, Malawi and Tanzania

27. Benin, Burkina Faso, Côte d'Ivoire, Ghana, Niger, Togo, Cape Verde, Gambia, Guinea, Guinea Bissau, Liberia , Mali, Senegal and Sierra Leone.



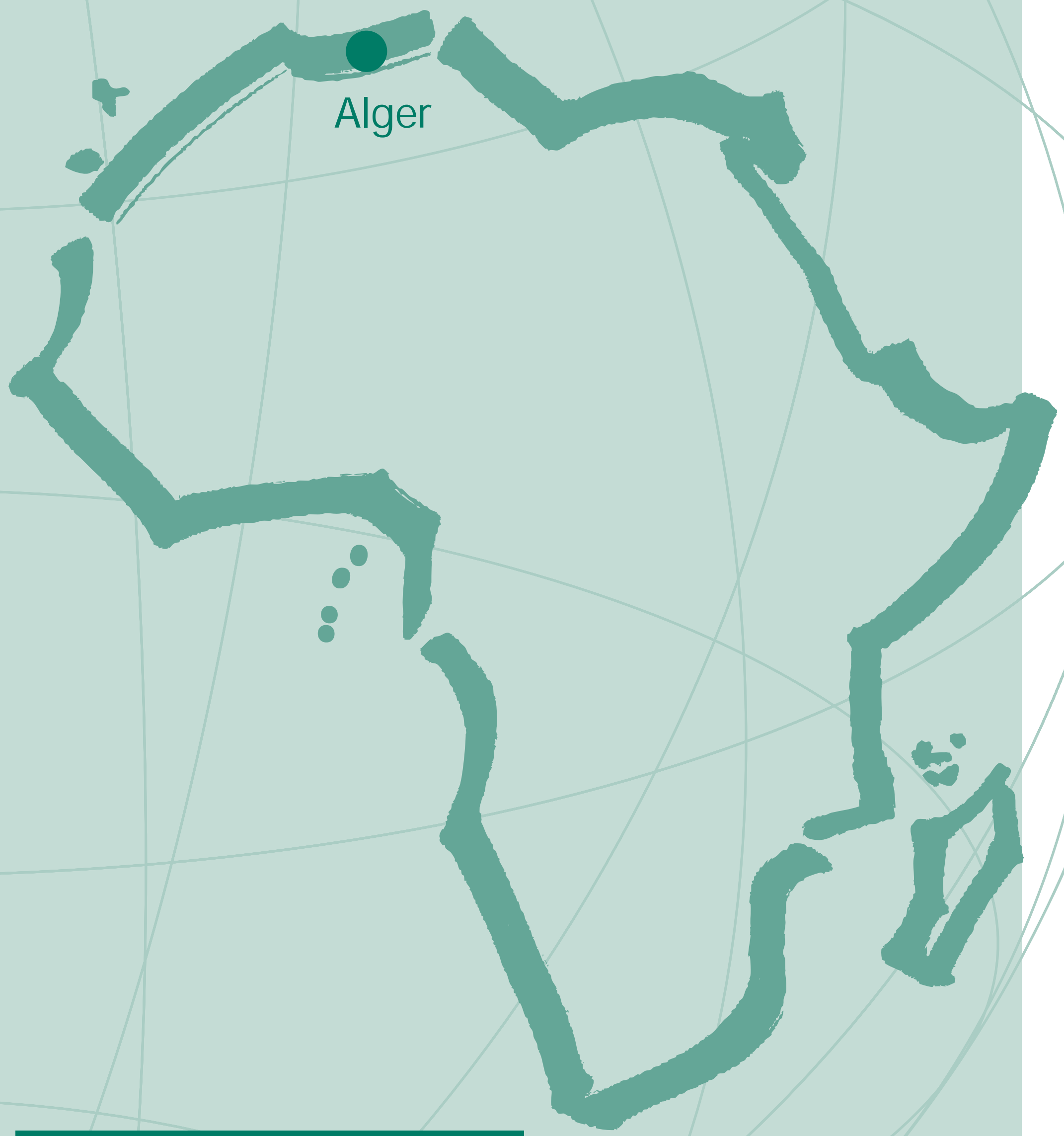
 © AfDB/OECD 2004

# Part Two

An OECD Browse_it Edition • Read Only • Lecture seule •

An OECD Browse_it Edition • Read Only • Lecture seule

# Algeria




**key figures**

| | |
|---|---|
| • Land area, thousands of km² | 2 382 |
| • Population, thousands (2002) | 31 266 |
| • GDP per capita, $ (2002) | 1 789 |
| • Life expectancy (2000-2005) | 69.7 |
| • Illiteracy rate (2002) | 31.2 |

An OECD Browse_it Edition
Read Only
• Lecture

# Algeria

In late 1995, the government adopted an adjustment programme to stabilise the economy and restore growth to levels that would reduce soaring unemployment and improve living standards. This policy and especially its component of stabilisation, allowed the country to start the 21st century with better macroeconomic and, to a lesser extent, growth performance than it had shown in the 1980s.

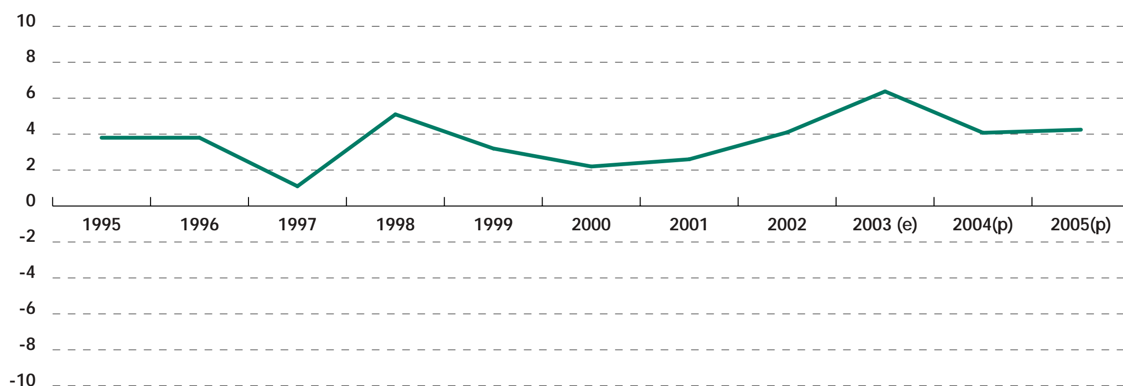
Encouraged by higher oil and gas revenue and net external assets, and anxious to contain social and political pressures, the government sought to improve performance further by launching an Economic Recovery Support Programme (PSRE) for 2001-04, in order to return annual growth to between 5 and 6 per cent and create nearly 850 000 jobs. Results have been very mixed, its long-term impact on growth and employment is not clear and it may bring uncertainty, especially in matters of internal balance. Growth in 2003 was good (6.4 per cent), thanks to the oil sector, but is expected to fall to 4.1 per cent in 2004 and 4.2 in 2005.

> Encouraged by higher oil and gas revenue, the government launched an Economic Recovery Support Programme with mixed results.

Although still highly dependent on the oil and gas sector, growth since 2002 has also been due to government efforts to boost competition, liberalise foreign trade and payments, step up privatisation and reform taxation, the financial sector and the management of state firms. Progress was often small and slow, but the government clearly wants to improve the business climate and encourage the private sector.



Figure 1 - **Real GDP Growth**



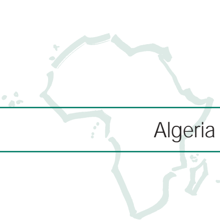

**Source:** Ministry of Finance data; projections based on authors' calculations.

## Recent Economic Developments

Real GDP (excluding the oil and gas sector) grew 4.2 per cent in 2002, more than predicted, and was expected to speed up in 2003 to about 6.4 per cent (5 per cent excluding oil and gas and agriculture).

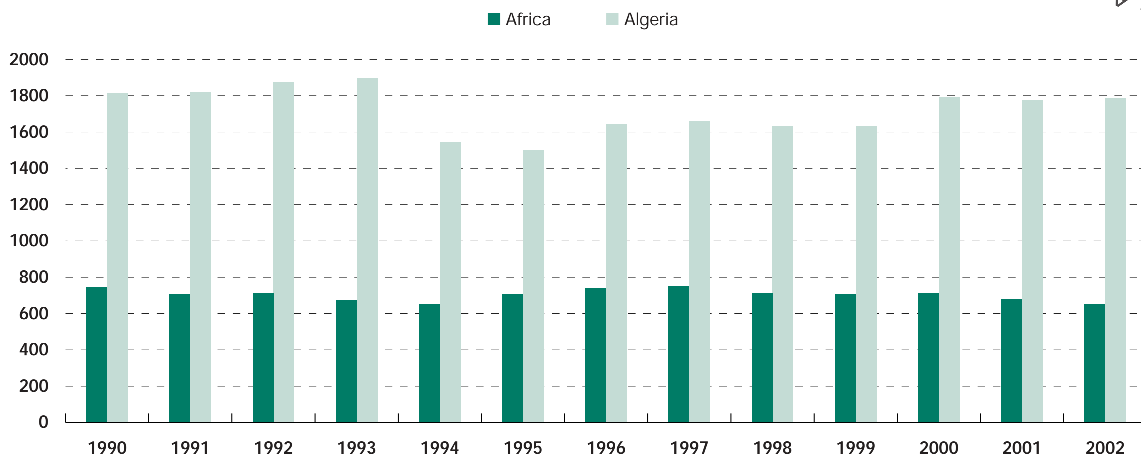
Growth in agriculture soared to 16 per cent in 2003 and is expected to be 6.6 per cent in 2004 owing to good weather. After expanding 13.2 per cent in 2001, the sector had shrunk 1.3 per cent in 2002 as lack of rain reduced the cereals harvest by 24 per cent. This was partly offset by good performance in livestock, which grew once again (5 per cent), and by a modest growth (0.8 per cent) in non-cereals production, thanks to spreading irrigation.

Farming accounts for nearly 11 per cent of GDP and has established itself in recent years. Though its depends on the weather, production is rising with the help of



Browse_it Edition • Lecture seule • Read Only • OECD

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




**Source:** IMF.

the National Agriculture Development Plan (PNDA), which is backed by the National Fund for Agricultural Development and Organisation (FNDRA).

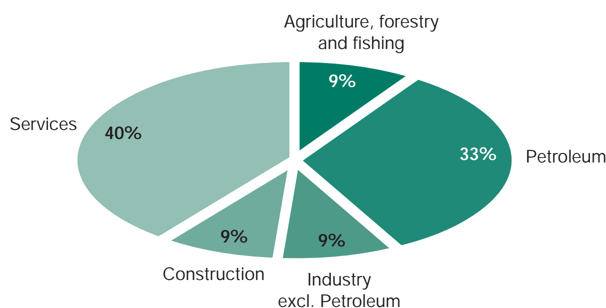
After two years of decline, manufacturing grew 2 per cent in 2001 and 2.9 per cent in 2002, evidence of vigour in the private sector that encouraged the government to speed up structural adjustment, also by defining the roles of the public and private sectors in development. Nevertheless, without energetic reform, manufacturing performance may be hampered by obsolescence, low productivity and the under use of installed capacity in the public sector. Growth in competitive sectors is likely to be curbed by a contraction of the domestic market, owing to the import-liberalisation requirements of Algeria's association agreement with the European Union. Reforms will be needed if manufacturing is to exceed its average 2 per cent growth of the past three years (1.9 per cent is predicted in 2003 and 2.4 in 2004).



The oil and gas sector grew 6.6 per cent in 2003, improving on the notable 2002 recovery (up 3.7 per cent) which followed the 1.6 per cent fall in 2001. In 2004, it is expected to fall back slightly to 5.2 per cent. In 2002, volume production of crude oil increased a little, as did that of gas, but production of refined items and condensates fell. The sharp fall in the average price for gas products (14.8 per cent for liquefied natural gas and 17.8 per cent for natural gas), which make up nearly two-thirds of the sector's exports, led to a fall in total export revenue of 2.7 per cent in 2002.

Construction grew 8 per cent in 2002, the most for six years and the best performance of any sector, due

Figure 3 - **GDP by Sector in 2002**



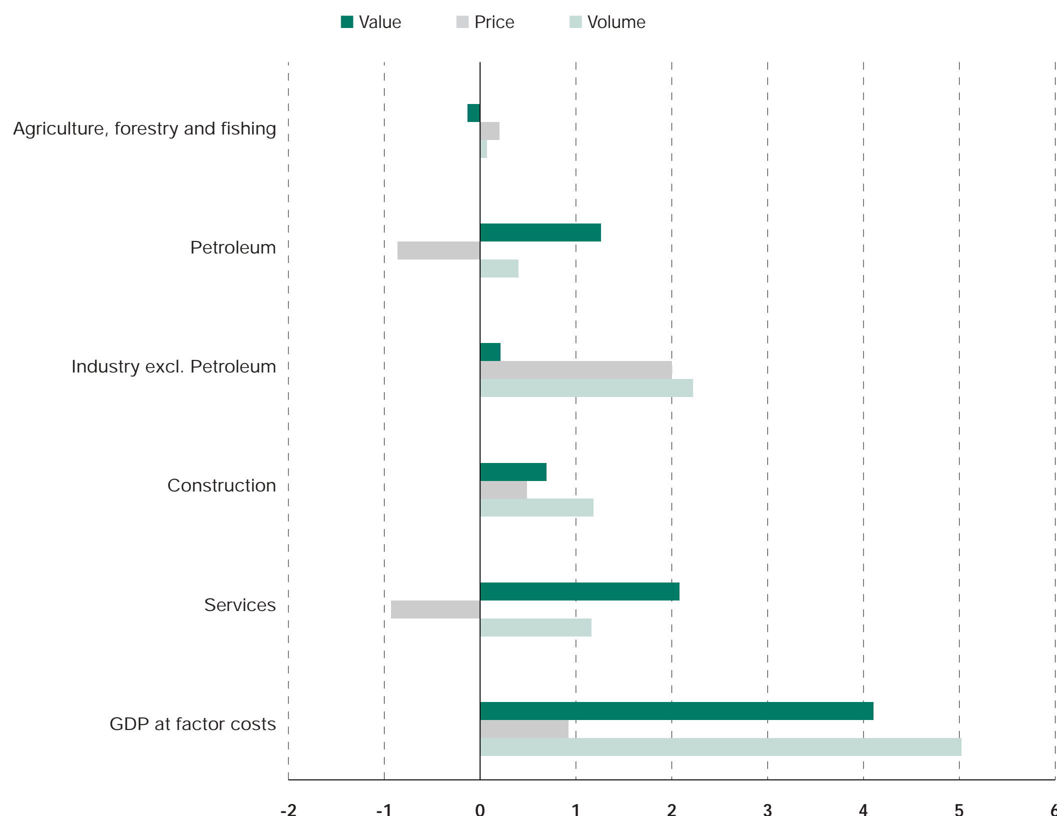

**Source:** Authors' estimates based on Ministry of Finance data.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**




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

to high government spending, notably on housing, roads and water facilities. This expansion held up in 2003 (7.5 per cent) and should continue in 2004 (7.3 per cent).

The service sector grew a healthy 6.7 per cent in 2003, slightly up on 2002 (5.4 per cent), and is expected to fall back to 5.4 per cent in 2004. The sector's contribution to GDP has steadily increased since 1995, reaching about 40 per cent since 2001.

This overall progress suggests the economy is speeding up but it is still very dependent on raw materials in the absence of diversification of its productive base. It will

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **30.2** | **22.4** | **27.1** | **30.4** | **33.0** | **34.4** | **35.6** |
| Public | 7.2 | 7.2 | 8.5 | 10.1 | 11.8 | 12.2 | 12.5 |
| Private | 23.0 | 15.2 | 18.6 | 20.3 | 21.2 | 22.2 | 23.2 |
| **Final consumption** | **72.6** | **55.5** | **58.3** | **59.6** | **57.2** | **58.8** | **59.6** |
| Public | 17.0 | 13.7 | 14.7 | 15.3 | 14.7 | 14.8 | 14.8 |
| Private | 55.6 | 41.8 | 43.6 | 44.2 | 42.5 | 43.9 | 44.8 |
| **External sector** | **-2.8** | **22.1** | **14.6** | **10.0** | **9.8** | **6.9** | **4.8** |
| Exports | 26.0 | 42.3 | 36.6 | 35.6 | 37.8 | 35.5 | 34.0 |
| Imports | -28.8 | -20.2 | -22.0 | -25.6 | -27.9 | -28.6 | -29.2 |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

depend in the short and medium term on the government's recovery support programme.

The share of gross capital formation in GDP has risen sharply since 2000, to reach 33 per cent in 2003 and an expected 34.4 per cent in 2004 and 35.6 in 2005, because of heavy public investment and significantly more private investment. The goods and services export surplus, however, fell by about the same amount as the increase in investment.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

One of the most important macroeconomic features of the past three years has been the determination of the government to learn from the past and soften the effect of fluctuating oil prices as much as possible. A special fund has been set up to regulate oil and gas revenue by collecting all extra-budgetary revenue and using it to make up for budgeted revenue shortfalls and reduce public debt. Institutional capacity has also improved, keeping internal and external macroeconomic balances at acceptable levels as demand supported economic revival.

Taking into account the regulatory fund, budget revenue was 1 602.3 billion dinars ($20.1 billion) in 2002 – 36 per cent of GDP (35.5 in 2001 and 38.5 in 2000). Expenditure was 1 592.7 billion dinars ($19.9 billion) – 34.8 per cent of GDP (31.1 in 2001 and 28.8 in 2000). The surplus was 9.6 billion dinars ($120.4 million) – 1.2 per cent of GDP (4.4 in 2001 and 9.6 in 2000).

Budget revenue increased by more than 2 per cent of GDP in 2003, boosting the surplus to 3.1 per cent. Budget surpluses since 2000 reduced government debt to 54.4 per cent of GDP in 2002 (from 80.6 per cent in 1999, 67.2 in 2000 and 58.9 in 2001).



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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants** | **30.0** | **38.5** | **35.5** | **36.0** | **37.9** | **36.2** | **35.2** |
| Tax revenue | 11.3 | 8.1 | 9.0 | 10.4 | 10.6 | 10.8 | 10.9 |
| Oil revenue | 18.3 | 30.0 | 24.0 | 23.0 | 24.8 | 22.9 | 21.7 |
| **Total expenditure and net lending** | **31.4** | **28.8** | **31.1** | **34.8** | **34.8** | **34.6** | **34.7** |
| Current expenditure | 24.1 | 20.9 | 22.9 | 23.9 | 22.2 | 22.1 | 22.0 |
| *Excluding interest* | *20.9* | *16.9* | *19.4* | *20.9* | *19.8* | *19.9* | *19.9* |
| Wages and salaries | 9.4 | 7.1 | 7.6 | 7.8 | 7.3 | 7.4 | 7.4 |
| Interest | 3.1 | 4.0 | 3.5 | 3.1 | 2.5 | 2.2 | 2.1 |
| Capital expenditure | 7.2 | 7.9 | 8.4 | 10.2 | 11.9 | 12.2 | 12.5 |
| **Primary balance** | **1.7** | **13.7** | **7.8** | **4.2** | **5.6** | **3.9** | **2.5** |
| **Overall balance** | **-1.4** | **9.7** | **4.4** | **1.2** | **3.1** | **1.7** | **0.4** |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

Revenue (excluding the regulatory fund) increased 13.4 per cent in 2002 to 1 575.8 billion dinars (1 389.7 billion in 2001) because of a 21.8 per cent rise in revenue from sources other than oil and gas, mainly due to changes in taxes concerning foreign trade.

Oil revenue remained steady (the average barrel price rose slightly from $24.80 in 2001 to $25.20 in 2002). In 2002 the regulatory fund increased by 26 billion dinars ($326.2 million), from 115.8 billion ($1.5 billion) in 2001 (and 453.2 billion, or $6 billion, in 2000) because oil revenue was higher than expected.

Public finances remain highly dependent on oil and 62.9 per cent of total revenue in 2002 came from oil taxes, 30.1 per cent from other taxes and 7 per cent from non-tax revenue.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only


Current expenditure was estimated at 63.7 per cent of total spending in 2003, down from 2002 (68.9 per cent) and 2001 (71.5 per cent). Wages and salaries rose 6.9 per cent from 2001 to 2002 to reach 346.2 billion dinars ($4.3 billion), or 7.8 per cent of GDP, mainly because of pay increases in several sectors of the civil service. Current transfers rose 20.6 per cent from 391.4 billion dinars ($5 billion) in 2001 to 471.9 billion ($5.9 billion) in 2002, which was 10.6 per cent of GDP.

In 2002, interest payments on internal and external public debt fell to 137.2 billion dinars ($1.7 billion or 3.1 per cent of GDP) from 147.5 billion ($1.9 billion or 3.5 per cent) in 2001, partly because of a significant fall in external debt in recent years, due to a cautious debt policy and major government reimbursements to Algerian banks.

Capital expenditure rose 26.7 per cent in 2002 to 452.9 billion dinars ($5.6 billion) from 357.4 billion ($4.6 billion) in 2001. Government investment was 11.9 per cent of GDP in 2003, up from 10.2 per cent in 2002, because of the economic recovery support programme.

The overall financial situation continued to improve in 2002, through efforts made by the monetary authorities. This allowed the government to cope with the high liquidity levels of banks, which had begun building up in the second half of 2001. Strict monitoring of liquidity should allow the monetary authorities to head off the growth of non-performing bank loans and the emergence of serious inflation linked with implementation of the economic recovery support programme.

The Bank of Algeria has not been able to use all market instruments (such as the open market, repurchasing agreements and loan auctions) to conduct its monetary policy. In order to control the growth in money supply, it has thus relied on obligatory reserves and mopping up some of the excess liquidity by tender. To help the process, the obligatory reserves rate was increased from 4.25 to 6.25 per cent in December 2002. This, along with an almost immediate rise in money-market interest rates, enabled a substantial amount of excess liquidity to be absorbed – between 100 and 160 billion dinars, or $1.25 and $2 billion.

The growth of net external assets that began in 2001 continued in 2002 and 2003, reaching 1 755.7 billion dinars ($22 billion) in December 2002 and 2 266 billion ($29 billion) in September 2003. This has become the banking system's main source of monetary creation. Internal credits grew 12 per cent in 2002 with the resumption of credits to the economy and steady net credits to the government. This increased the internal credit/GDP ratio by 41.4 per cent, returning it to the 2000 level after dropping 2.5 per cent in 2001. However, internal credit slipped in September 2003 to 1 787 billion dinars ($22.9 billion) because of fewer credits to the government. Growth of the money supply (M2) thus slowed further in 2003 (September 2002 to September 2003) to 12 per cent, down from 17.3 per cent in 2002 and 22.3 per cent in 2001, returning to the moderate growth rate of 12-13 per cent in 1999 and 2000.

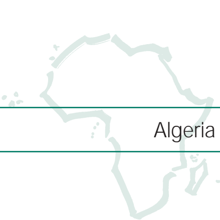


One of the goals of monetary policy was achieved with reduction of inflation to 1.4 per cent in 2002 from 4.2 per cent in 2001. The slight increase to 2.4 per cent in 2003 was caused by higher oil and food prices and the rate is expected to fall again in 2004, to 1.3 per cent as a result of greater food production and especially the return to normal oil prices.

The dinar rose against the dollar in 2002 and 2003 and fell against the euro, so the real effective exchange rate (REER) was steady. The fall against the euro was mainly because of the euro's rise against the dollar and Algeria's exchange policy – owing to the dominance of oil and gas in exports – is to curb the dinar's fluctuation against the dollar. The government will need to revise this policy by giving more weight to the euro, in order to benefit from the debt structure and the competitiveness of non oil-and-gas exports on the European market as the EU association agreement is implemented.

### *External Position*

Algeria has begun a gradual liberalisation of its foreign trade. It streamlined its customs regime in 2002 by





An OECD Browse_it Edition • Read Only • Lecture seule

reducing duties to just three levels (5, 15 and 30 per cent), as well as a zero rate, following introduction the previous year of a temporary additional tax (DAP) of 60 per cent on some agricultural, food and textile items. The DAP is to be abolished in 2006, but in five annual stages to protect local firms.

This opening-up is expected to continue over the next few years with implementation of the April 2002 association agreement with the EU (as part of the Euromed initiative) to start setting up a free-trade area within two years.

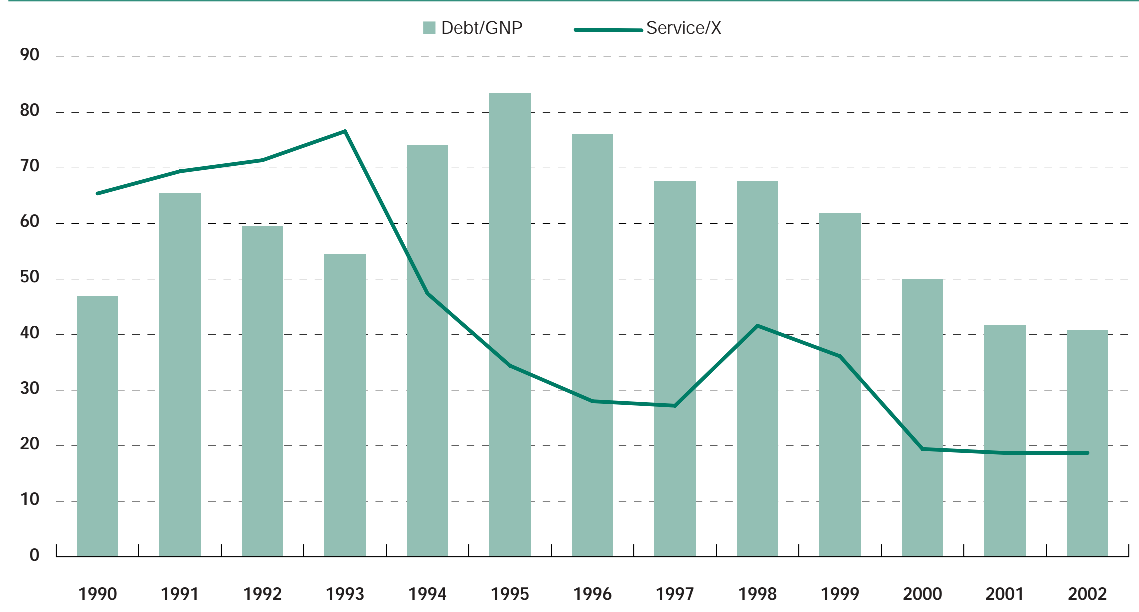
The external balance improved in 2002 as the price of oil rose slightly to $25.24 a barrel ($24.85 in 2001) and there was a large surplus of $4.36 billion (7.8 per cent of GDP), though this was down from $7 billion (13 per cent of GDP) in 2001. This healthy position was partly due to a trade surplus of $6.7 billion from exports of $18.7 billion, 96.8 per cent of them oil and gas products. Imports were $12.01 billion, significantly more than in 2001 and 2000 because of higher demand for machinery and equipment for the economic recovery programme. The current account balance is expected to be about the same in 2003 but to deteriorate in 2004 and 2005.

The capital account however had a $710 million deficit in 2002, but this was an improvement on 2001 ($870 million) and 2000 ($2.4 billion). This was mostly due to a levelling out of external debt reimbursements ($3.22 billion in 2002, $3.04 billion in 2001 and $2.86 billion in 2000, including short-term loan repayments). Net foreign direct investment, mainly in the oil and gas sector and telecommunications (first-tranche payment for the second GSM licence), also declined slightly.

These changes in the balance of payments helped the government build up foreign exchange reserves, which reached $23.1 billion at the end of 2002 (up from $17.96 billion at the end of 2001 and $11.9 billion at the end of 2000). This represented 19 months of imports of goods and services (18 months in 2001 and only 4.5 in 1999). The external position was also helped by the lower level of medium and long-term external debt, which after peaking at $33 billion in 1996, was down to $22.5 billion by the end of 2002. As a result,



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




**Source:** World Bank.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only • A ...



Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | 0.1 | 22.6 | 17.5 | 12.0 | 12.1 | 9.3 | 7.4 |
| Exports of goods (f.o.b.) | 24.4 | 39.8 | 34.8 | 33.5 | 35.5 | 33.3 | 31.9 |
| Imports of goods (f.o.b.) | -24.3 | -17.2 | -17.3 | -21.5 | -23.4 | -24.0 | -24.5 |
| Services | -3.1 | -2.7 | -2.8 | -2.1 | | | |
| Factor income | -5.2 | -5.0 | -3.1 | -4.0 | | | |
| Current transfers | 2.6 | 1.5 | 1.2 | 1.9 | | | |
| **Current account balance** | **-5.6** | **16.4** | **12.9** | **7.8** | | | |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

the debt service ratio to export was reduced to 18.7 per cent in 2002, though that was still quite high.

## Structural Issues

The government has made reforms in recent years to improve the business climate and stimulate the private sector. But they were mostly small and timid and the country is still not very attractive to foreign investors.

Efforts are under way to take a new approach to oil and gas sector development which will take into account changes in internal and external conditions.

The government has been forced to adapt to changes in EU energy policy, which have introduced new rules and competition to the market. The policy aims to open up the electricity and gas sectors with directives in 1996 (35 per cent of the electricity market by 2003), in 1998 (33 per cent of gas by 2003) and in March 2001 (total liberalisation of both by 2005). Algeria sells more than 95 per cent of its gas to Europe and is an important supplier for Portugal (88 per cent), Spain (64), Italy (38), France (24) and Greece (26).

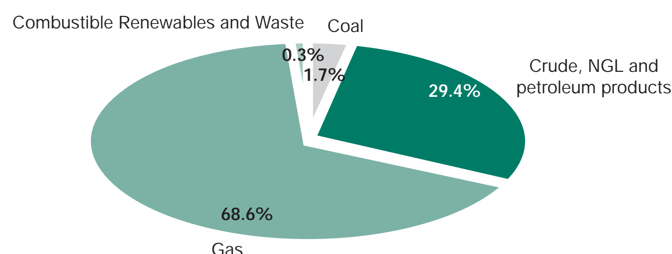
Algeria is the world's fifth largest exporter of natural gas and the second largest exporter of liquefied natural gas and is increasingly integrating into the global economy. Government policy seeks to change the balance between public and private sectors and to open several sectors, including energy, to greater local and foreign capital. Goals include boosting energy's contribution to government revenue, external funding, economic growth and jobs.

Laws on mining (2001), electricity (2002) and oil and gas (still to be passed) are intended to define the state's role in the regulation, production and marketing of these sub-sectors, in order to open them up to private capital. Sonelgaz is to be divided into a limited company with subsidiaries that are open to minority private ownership.

The oil and gas law will set up two autonomous agencies. One of them, Alnaft, which is already operating, mainly grants prospecting and production



Figure 7 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

OECD Browse_it Edition • Read Only • Lecture seule

rights and runs a databank. To avoid conflicts of interest, it cannot invest in the sector and investors, chosen through international bidding, can freely select blocks they want to prospect through official contracts. The other agency regulates transport charges and access to the network of the state oil and gas firm Sonatrach and compliance with technical and environmental rules. Sonatrach is to focus on marketing at home and abroad and will be treated like other investors when new oil contracts are awarded. It will have to fund its own development without government guarantees.

The government wants to encourage private sector participation, more active partnership and more freedom of action for national companies, stimulating prospecting, production and exports, especially in view of growing demand from Europe, and to strengthen Algeria's key position in the world oil and gas industry.

Algeria already has two gas pipelines, one going west through Morocco to Spain and another going east through Tunisia to Italy. An agreement has been signed with Nigeria to look into building a pipeline from the Nigerian gas fields to supply the European market, a project that also includes building a road and fibre optic cable. These links would connect Algeria to both the European Union and Africa. An agreement has also been made with Spain to lay an undersea cable to export electricity and the government has set up the Algerian Energy Company, involving Sonatrach and Sonelgaz, with bids already invited to build a 2 000 MW power station to export 1 200 MW. At this stage, five bids have been received from major international power firms, including the EDF (France), ENEL (Italy), ENDESA (Spain) and AES (United States).

The 2002 association agreement with the European Union makes it more necessary than ever for the Algerian economy and its firms to adapt to a market economy. Extensive legal and financial reform of state firms was launched in the 1990s. As soon as they were legally autonomous and their accounts balanced, some 250 companies were listed for privatisation in late 1997. Despite the sale, or partial sale, of the El Hadjar steel complex (SIDER) in 2001, the national detergent and cleaning products firm ENAD in 2000 and sale of a second GSM mobile phone licence, privatisation is slow.

In early 2002 the government planned to privatise about 70 small and medium-sized state-owned firms within six months, but two years later none had been disposed of owing to numerous administrative, structural and social problems (substantial layoffs were necessary). Land questions have not been settled and telecommunications and the financial system are still inefficient.

Reform of the financial sector consists of setting up a regulatory and institutional framework, possibly more private and foreign shares in state banks and modernising the sector and the payments system. This involves recapitalising and licensing banks, limiting the concentration of risk, improving the classification and securing of loans, and strengthening supervision of the sector. It also involves changing monetary policy to use indirect market instruments and using the market to raise domestic budget funding.

Successful banking reform depends on dropping the obligation of banks to prop up failing state firms, which effectively subsidises them to the tune of one per cent of GDP each year (according to the World Bank). The two largest private banks (6 per cent of all deposits) collapsed because of fraud and failure to observe prudential rules. This cost the government the equivalent of 2 per cent of GDP.

## Political and Social Context

Over the past 15 years, Algeria has ceased to be a monolithic regime. This difficult transition has involved debate about how to democratise and organise public life, about the role of religion in political life, and about the balance between military and political power.

Most people in Algeria and abroad saw the 1999 election of Abdelaziz Bouteflika to the presidency as a chance to start a new stage of the transition because of his



 © AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

international experience and great familiarity with the complexity of Algerian politics.

Opposition parties disputed the election of Abdelaziz Bouteflika, but he formed a more open government, with ministers from several political parties and kept his campaign promises by making reforms to restore civil peace and boost political stability through a referendum and a law on civil harmony. He amended laws on community groups to encourage people to take part in local government and, most recently, made concessions to the Berber minority, including constitutional recognition of their language. Reforms also involved increasing the independence and openness of the justice system by adapting and harmonising laws, allowing judges to specialise (notably in economic law), decentralising courts and renovating the prison system.

His government also strove to revive Algeria's role through active diplomacy in North Africa by helping to build the Euromed co-operation area and by improving relations with the United States. However, the results were very mixed. Social and economic achievements include renewed growth, macroeconomic stability and better (though less than hoped for) performances on housing, unemployment and poverty. But lawlessness has not yet been completely eradicated, the justice system is still not fully independent and corruption is far from eliminated.

It was probably his restoration of civil peace that got Bouteflika reelected on 8 April 2004 with 85 per cent of the vote. About 58 per cent of voters turned out (fewer than in 1999 but more than at the May 2002 parliamentary elections) in what was the country's third contested election. The main opposition candidate, former prime minister Ali Benflis, got only 6 per cent of the vote and disputed the result.

The early years of independence saw a focus on social policies, with spending on education and health around 10 per cent of GDP during the 1970s and 1980s. However, poor results were disappointing and aggravated by spending cuts in the 1990s. With the return of economic growth, efforts to improve these areas have shown up in indicators for poverty, unemployment, living standards, health and education.

Fighting poverty is a priority and the first national anti-poverty and anti-exclusion conference took place in Algiers in late October 2000. Poverty grew significantly between 1987 and 1995, when 22.6 per cent of the population was living below the poverty line. This was probably due to weak growth, lack of government money for social sectors, the rise of terrorism and the bad reaction of local and foreign investors, as well as the social costs, notably unemployment, caused by attempts at economic adjustment.

The workforce was about 8.6 million people at the end of 2001 (85 per cent men and 59 per cent urban dwellers), of which 6.2 million were thought to be in employment. Joblessness, despite dropping nearly 2 per cent in the past three years, is a high 27.3 per cent and is likely to be a major government concern and main source of social and political unrest, as it affects 51 per cent of those under 20 and 46 per cent of those aged between 20 and 24.

The PSRE economic recovery support plan aims to improve living standards by urban renewal and upgrading housing, sewage, water supply and garbage collection. Housing is still very poor despite being a well-funded government priority. Much of it does not conform to building regulations and access to new housing is time-consuming and difficult for most people. Moreover, government aid and money for cheap housing is not reaching its destination. The government now wants to focus on providing affordable shelter for everyone, especially the low-paid, and reduce the burden of housing subsidies on the state at the same time as maximising job creation.

Though nearly 90 per cent of urban dwellers had access to piped water in 2002, the quality of service in towns and cities is very poor. The government blames this on institutional, financial and management problems, as well as the lack of infrastructure owing to delays in building dams and aqueducts, all aggravated by persistent drought. As a result, water is rationed everywhere (4 to 6 hours daily supply, three days a

OECD Browse_it Edition • Read Only • Lecture seule

week in 2002). The situation is worse in rural areas, where lack of drinking water and storage facilities threatens health and puts a heavy burden on women, who have to go long distances to fetch it.

Similarly, nearly 80 per cent of people were connected to a sewage system in 2002 but most of the 49 treatment plants were out of action and raw sewage is mostly dumped in valleys and the sea, creating a very serious health danger. The government plans, with the help of the private sector, to build new dams and desalination plants, spend more on upgrading existing infrastructure, improve water supply and sewage collection and treatment, and to strengthen its solid waste handling programme (Progdes).

Algeria has made great efforts to expand access to medical care, as shown by a rise in life expectancy (to 71 years in 2002 from 67.4 in 1990) and lower infant mortality (32 per cent in 2002, down from 46 per cent in 1990). Further effort is needed, however, because of deteriorating infrastructure and declining facilities. In 2000, there was one doctor per 1 338 people (1 250 in 1997) and one hospital bed for every 1 922 people (1 960 in 1997). Medicine is sometimes lacking, including in hospitals. The government is trying to make the sector more efficient, cost-effective and better quality by boosting preventive medicine, especially in primary care and reproductive health, stepping up the fight against infectious diseases, especially among the poor, and combating the rising rate of chronic illnesses. Funding for this may be hard to find.

A national commission was set up in 2000 to draft an education reform. In 2002, illiteracy among over-15s had declined to 31.2 per cent (32.2 in 2000 and 47.1 in 1990) and enrolment of 6-12 year-olds to 86.5 per cent (87.8 in 1997). More and more girls were enrolled at all levels – 47.1 per cent in primary (46.1 in 1997) and 56 per cent in secondary education (52.5 in 1997). Boys' enrolment, however, fell to 89 per cent (92 in 1997). The dropout rate was 7.4 per cent for 6-12 year-olds in 1998, despite a good ratio of one teacher for every 21 pupils in 2000, which was high compared with other countries at a similar level of development.

The other contrast is the gap, highlighted by the private sector, between the level of higher and vocational education and the need for skills and training for the productive economy, despite the large amount spent on these sectors. There is also disparity at all levels of education between regions and between urban and rural areas.

This situation spurred the government to set up the reform commission to improve educational quality and efficiency in view of high unemployment and the opening of the economy. The commission has focused on reviewing human resource policies for basic education (teachers' pay, skills assessment, promotion, deployment and training), action to reduce disparities as much as possible, the gradual adaptation of higher education to new social and economic demands, the reduction of the government's financing burden (especially for subsidies to universities), the increase of on-the-job training and modernisation of vocational schools so they respond better to the needs of the labour market.



 © AfDB/OECD 2004

# Botswana

**key figures**

- Land area, thousands of km² 582
- Population, thousands (2002) 1 770
- GDP per capita, $ (2001/2002) 2 857
- Life expectancy (2000-2005) 39.7
- Illiteracy rate (2002) 21.1

An OECD Browse_it Edition • Read Only • Lecture seule

# Botswana

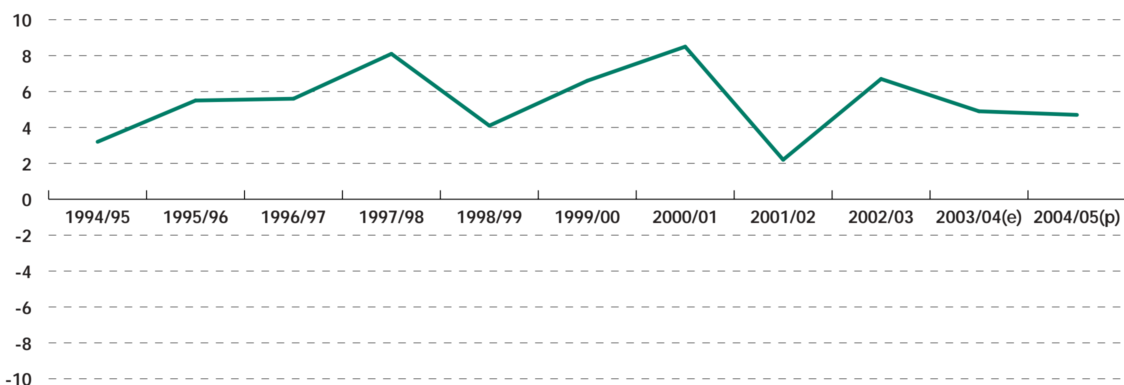
Botswana remains one of Africa's success stories of sustained economic growth, which is anchored on good governance, political stability and prudent macroeconomic management. Economic growth had been strong over the past years, with strong revenue from the diamond sector prudently utilised to boost growth. In 2001/02, real GDP growth slumped to 2.2 per cent following the significant drop in diamond revenues. Real GDP growth resurged to 6.7 per cent in 2002/03 on account of improved mining performance. The outlook on economic growth is stabilisation in 2003/04 and 2004/05 (at 4.9 and 4.7 per cent respectively) albeit at lower levels of real GDP growth than recently achieved; the stabilisation in growth will follow a relative weakening in the international diamond market. The prudent fiscal policies pursued had enabled the government to accumulate substantial surpluses on the fiscal account in periods of strong diamond revenues. However, the downturn in the diamond sector as well as increasing HIV/AIDS related expenditures have brought about significant deficits on the fiscal account. The efforts of the government are therefore concentrated on restoring fiscal discipline.

**Sustained economic growth, and prudent macroeconomic management are threatened by the HIV/Aids epidemic and the stagnation of diamond production.**

Botswana's long record of political and social stability, sustained rapid economic growth, and prudent macroeconomic management continue to earn the country high international ratings. Transparency International's survey of country corruption perception index has since 1998 ranked Botswana as the least corrupt country in Africa. However, Botswana suffers some negative social developments. The country suffers from one of the highest rates of HIV/AIDS infections in the world, which is eroding the hitherto impressive improvements in the living standards and imposing a burden on the health system as well as contributing to deterioration in the education system. Moreover, the current high rate of poverty and unemployment in the country is not compatible with Botswana's middle-income status.



Figure 1 - **Real GDP Growth**



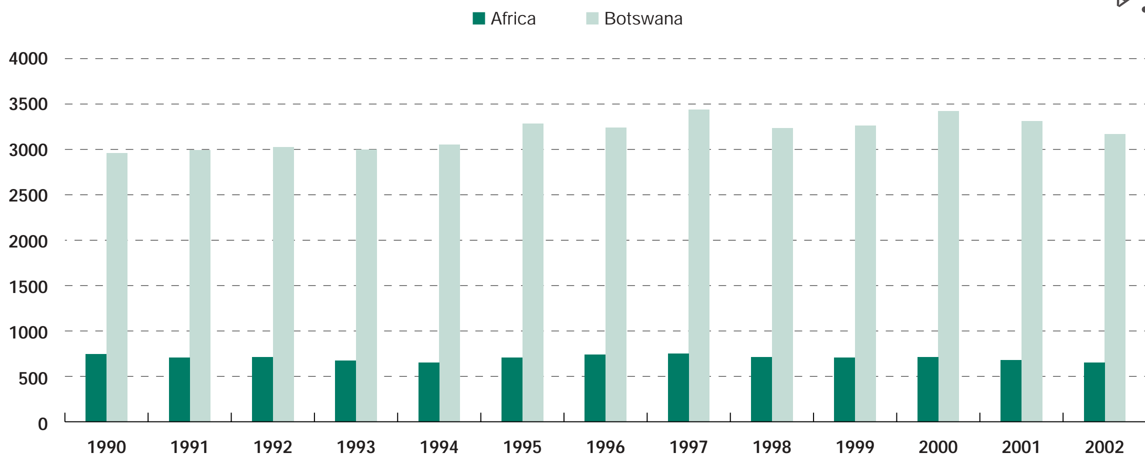

**Source:** Domestic authorities' data; projections based on author's calculations.

## Recent Economic Developments

Botswana's economic performance is highly dependent on developments in the mining sector, especially diamond mining, and the recent growth performance has been directly related to the performance of diamond output. In 2002/03, the economy rebounded from the low growth in the preceding year. Real GDP growth rose to 6.7 per cent in 2002/03 from a low of 2.2 per cent recorded in 2001/02, when the adverse effects of

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

drought and the significant decline in the output of diamonds constrained economic activity. The improved growth performance in 2002/03 followed the opening of new mines, which led to mining output increasing by 10.4 per cent, from the decline of 4.4 per cent in the preceding year. The rebound followed the coming on stream of the new Damtshaa mine (previously known as the BK 9 pipe) developed jointly by De Beers and the Government of Botswana. In 2003, about 292 000 carats of diamonds were recovered from this new mine. Other new mines that were developed include Martins Drift, close to the border with South Africa. In addition to diamonds, output from other minerals, such as copper and nickel, picked up in 2002/03 encouraged by high prevailing commodity prices. A new gold mine was opened in 2003, which is estimated to have total exploitable gold reserves of about one million onces.

The non-mining sector of the economy also experienced significant growth of 5.5 per cent in 2002/03. Growth in non-mining activity was spearheaded by substantial growth in the services sector, which was due to government's diversification policy to shift the economy from over-dependence on mining activity. The agriculture sector, which accounted for 2.6 per cent of GDP in 2002/03, had a modest growth of 1.9 per cent. This positive growth reversed the decline of 2.5 per cent experienced in the preceding year, when the sector suffered from the effects of foot and mouth disease as well as the impact of the drought that engulfed the whole Southern Africa region. Agriculture in Botswana is dominated by livestock rearing, meat and diary production, estimated at 80 per cent of the sector's value added while food crops (maize, sorghum, millet and beans) account for the remaining 20 per cent. Although the government has, under the Ninth National Development Plan (NDP 9), been making a push to diversify the sector into a wider range of crop production, based on the adoption of modern techniques including irrigation infrastructure, fertiliser enrichment, mechanisation and crop-disease control methods, agricultural output still depends on the weather and is prone to disease.

Manufacturing activity accounted for 4.7 per cent of GDP in 2002/03, with a growth rate of only 0.2 per cent. Growth in manufacturing has remained dismal since 1999/00 when the sector achieved 3.5 per cent. Among the factors inhibiting manufacturing growth are lack of skilled labour and the small domestic market. In 2002/03, the growth in manufacturing was derived from the output of textiles, tannery/leather products, jewellery and glass products. There is, however, prospect for improved performance in 2003/2004. The government, through the Botswana Export Development and Investment Agency (BEDIA), has selected niche industries on which to intensify its investment promotion drive. The selected industries include textiles and garments, jewellery, tannery and

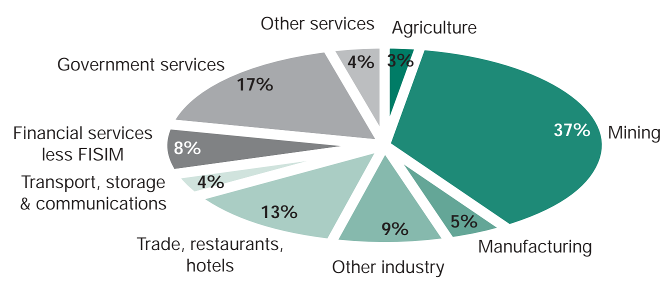




© AfDB/OECD 2004

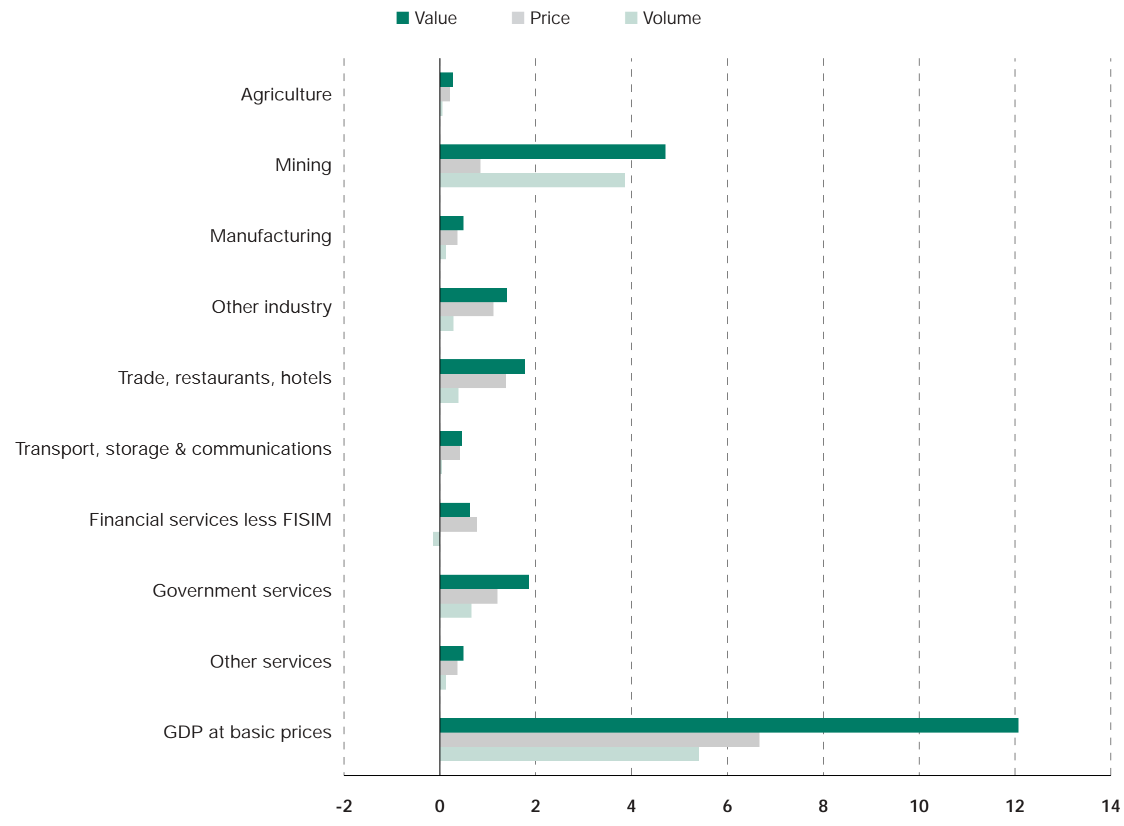
OECD Browse_it Edition • Read Only • An OECD Lecture seule

## Figure 3 - GDP by Sector in 2002/03




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

## Figure 4 - Sectoral Contribution to GDP Growth, 2002/03




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

leather products, glass and information technology products, which can utilise locally available raw materials. Through the efforts of BEDIA, 7 new companies became operational in 2003 to add to the 14 companies that were operational in 2002.

The service sector accounted for 47.3 per cent of GDP in 2002/2003. Expansion in communications services, especially mobile telephones, was an important factor in the sector's growth in 2002/03. Mobile telephone services grew by 11 per cent in 2002/03 to follow a similar growth rate in the preceding year. Tourism also contributed to growth in the service sector. In 2002/03, the number of tourist arrivals is estimated to have risen slightly by 2 per cent, to reverse the decline of 19 per cent experienced in 2001/02, as a result of the

OECD Browse_it Edition • Read Only • Lecture seule

September 11 events. The banking, insurance and business services sub-sector recorded a 7.5 per cent growth rate in 2002/2003 to follow the 7.1 expansion in the preceding year. This sub-sector benefited from the financial reforms implemented in 2002, aimed at improving delivery of financial services, through the implementation of the National Payments System Reform. Within the service sector, construction activity, which accounted for about 6 per cent of GDP in 2002/03, recorded a growth rate of 5.6 per cent, up from 4.7 per cent in 2001/2002. The improved growth performance in construction during 2002/03 was due to expansion of government housing activity. There is, however, some productivity problem in the sector, particularly of building contractors who fail to complete projects on time, resulting in cost escalations and delays in benefit reaching the intended beneficiaries. The government is implementing a Self-help Housing Agency Programme, which is expected to continue boosting activity in construction.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995/96 | 1999 /2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **23.7** | **20.4** | **19.6** | **26.2** | **29.5** | **29.7** | **29.7** |
| Public | 13.8 | 12.6 | 11.6 | 10.6 | 9.8 | 8.4 | 7.2 |
| Private | 9.9 | 7.8 | 8.0 | 15.5 | 19.8 | 21.3 | 22.6 |
| **Consumption** | **61.4** | **60.0** | **56.9** | **61.9** | **61.0** | **62.3** | **61.4** |
| Public | 28.2 | 30.2 | 30.5 | 33.1 | 33.5 | 33.7 | 32.8 |
| Private | 33.2 | 29.8 | 26.3 | 28.8 | 27.5 | 28.6 | 28.6 |
| **External Sector** | **14.9** | **19.6** | **23.6** | **12.0** | **9.5** | **8.0** | **8.9** |
| Exports | 52.2 | 61.4 | 61.3 | 48.8 | 44.4 | 41.3 | 41.3 |
| Imports | -37.3 | -41.8 | -37.7 | -36.8 | -34.9 | -33.4 | -32.4 |

**Source:** IMF data; projections based on authors' calculations.



Botswana's recent strong economic performance has been supported by the export sector, which has enabled strong gross capital formation. In 2002/03, gross capital formation rose to the highest level in several years, following a strong rise in private investment that reflected the increasing confidence in the economy. The rise in private investment in 2002/03 offset a decline in public investment, in turn reflecting capacity constraints to implement development projects. The structure of demand of the Botswana economy is expected to be maintained as the export sector remains buoyant.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

The fiscal policy of Botswana follows the directions set in the country's National Development Plans. The government's fiscal activities have on the whole remained disciplined. To a large extent, the institution of the National Development Plans has kept government expenditure from growing as fast as government revenues over the long term. As a result, Botswana has accumulated substantial government savings that have enabled the country to ride out downturns in the diamond market.

Fiscal performance is crucially dependent on diamond revenue. At the same time, the government continues to make efforts at increasing non-mineral revenue. An Income Tax Amendment Bill, which enhances enforcement and compliance under the Income Tax Act, has been proposed in 2002/03 to enhance tax administration. Also, since 2002/03, withholding taxes have been extended to rental income of immovable property, to dividend income of all companies, and to interest income received by residents. Further, the coverage of VAT, which was introduced in 2000/2001, has been widened. Nonetheless, the government's strong fiscal dependence on mineral revenue is expected to remain in the foreseeable future. In addition to efforts to raise non-mineral revenues, the government continues



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



to take measures to control public expenditure. The government has introduced a performance contract for public officers, aimed at ensuring value for money and controlling expenditure. In addition, the government has set up the Public Procurement and Asset Disposal Board (PPADB), which commenced operations in July 2002, to manage the procurement activities of the government.

The outcome of the government's fiscal activities, which had long enjoyed a record of robust surpluses in excess of 6 per cent of GDP, took a dip into a deficit in 2001/02 and 2002/03. Like the preceding deficit in 1998/99, the deficit in 2001/02 and 2002/03 was the result of an unexpected drop in mineral revenue. Moreover, since 2001/02, current expenditures have risen sharply reflecting spending on education, HIV/AIDS, and general public services. The significant increase in recurrent spending was due to increases in public sector salaries. This led to expenditure on wages and salaries rising from 9.6 per cent of GDP in 2000/2001 to 10.8 per cent in 2001/2002. As a result, the overall fiscal balance turned from the healthy surplus of 9 per cent of GDP in 2000/01 to a deficit of 3 per cent of GDP in 2001/02. An even larger fiscal deficit of nearly 4 per cent of GDP is estimated to have been registered in 2002/03, under the combined effect of continued pressure on current outlays, an appreciation of the *Pula* against the dollar, and diamond prices which did not increase significantly to compensate for the weakness of the dollar. As a result of the revenue shortfall in 2002/03, the Government was compelled to introduce supplementary budget to meet the salary increases and to finance relief programmes for drought-related activities. It is expected that the fiscal outlook will continue to show deficits in 2003/04, as mineral revenues remain subdued and some revenue items, notably VAT, are expected to show a sizeable shortfall owing to weak tax administration. On the other hand, current outlays on HIV/AIDS and drought relief are expected to exceed budget estimates.

The deficit is projected to contract in 2004/05, reflecting lower capital expenditures as well as improved revenue collection as the short-term measures introduced by the authorities in 2003 will start to produce some results. These measures are mainly associated with improving the administration of VAT and setting up of the Botswana Unified Revenue Service (BURS). In the medium term, revenue collection efforts as well as a prioritisation of expenditures are expected to lead to a balanced budget.



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

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants** [b] | **38.5** | **48.0** | **49.3** | **39.8** | **39.4** | **38.5** | **38.4** |
| Tax revenue | 28.3 | 39.8 | 42.2 | 33.2 | 33.7 | 32.5 | 32.6 |
| Grants | 0.3 | 0.5 | 0.2 | 0.2 | 0.2 | 0.5 | 0.5 |
| **Total expenditure and net lending** [b] | **36.6** | **41.8** | **40.3** | **42.8** | **43.2** | **42.5** | **40.4** |
| Current expenditure | 24.7 | 28.3 | 29.3 | 31.1 | 31.9 | 32.7 | 32.1 |
| *Excluding interest* | *24.1* | *27.9* | *29.0* | *30.8* | *31.6* | *32.1* | *31.2* |
| Wages and salaries | 8.6 | 9.7 | 9.6 | 10.8 | 10.9 | 10.6 | 10.7 |
| Interest | 0.6 | 0.4 | 0.3 | 0.3 | 0.2 | 0.6 | 0.9 |
| Capital expenditure | 11.8 | 13.8 | 10.9 | 11.6 | 11.6 | 10.0 | 8.5 |
| **Primary balance** | **2.5** | **6.5** | **9.3** | **-2.7** | **-3.6** | **-3.4** | **-1.1** |
| **Overall balance** | **1.9** | **6.2** | **9.0** | **-3.0** | **-3.9** | **-4.0** | **-2.0** |

a. Fiscal year begins 1 July.
b. Only major items are reported.
**Source:** Domestic authorities' data; projections based on authors' calculations.

Monetary policy in Botswana is guided by the desire to control domestic price level, although explicit inflation targeting is not the rule. In order to achieve its inflation objective, the Bank of Botswana (BOB) uses interest rates to influence inflationary pressures in the economy. This is achieved indirectly through the impact

OECD Browse_it Edition • Read Only • Lecture seule

of interest rates on credit and other components of domestic demand. The BOB focuses on the intermediate targets that influence the main components of domestic demand. The principal intermediate targets in the monetary policy framework are the rate of growth of commercial bank credit to the private sector and growth in government expenditure.

In 2002, domestic demand remained strong, with the growth rates for both commercial bank credit to the private sector and growth in government expenditure higher than desired. Commercial bank credit to the private sector grew, on average, at an annual rate of 18 per cent in 2002, up from 13.2 per cent in 2001. Consequently, broad money supply (M2) rose by 12.8 per cent in 2002. In order to reduce the demand pressure emanating from credit expansion, the bank rate was increased by 100 basis points in October and November 2002 to 15.25 per cent. In response, commercial banks' lending and deposit rates were also raised. In 2003, the Bank of Botswana increased its placement of certificates (BOBCs) – which represent the main instrument of liquidity control – to 26 per cent of GDP (from about 13 per cent in 2001). Moreover, the initial issuing of government bonds in 2003 contributed to further tightening of liquidity. Partly as a result of these measures, growth in private sector credit decelerated to 15 per cent at the end of 2003. In the light of this slower growth in credit, the authorities cut the bank rate to 14.25 per cent in December 2003.



In recent times, the authorities have defined the inflation target within the range of 4-6 per cent. This target has, however, proved difficult to attain. Inflation in Botswana is heavily influenced by trends in South Africa, as Botswana sources much of its imports from South Africa and the weight of the rand in the basket to which the pula is pegged is about 70 per cent. The annual average rate of inflation has remained in single digits since 1995, averaging around 7.8 per cent over the period 1995-2000. The rate of inflation fell to 6 per cent in 2001/02. In 2002/03, the annual average rate of inflation is estimated to have risen to 10.6 per cent, owing largely to the effect of the drought on food prices. However, inflation is projected to ease to 5.8 per cent in 2003/04 and to continue on a downward trend to reach 5 per cent in 2004/05 as the drought situation improves to reduce food prices.

The exchange rate of the pula is pegged to a weighted basket of currencies comprising the South African rand, the US dollar, the euro, the British pound and the Japanese yen. The weights reflect the volume of Botswana's trade with the countries of these currencies. The weights are adjustable according to the discretion of the monetary authorities. The critical element in Botswana's exchange rate strategy is to maintain a stable and competitive real exchange rate of the pula, primarily through control of domestic inflation, but also, when necessary, by changing the fixed nominal exchange rate of the pula against the basket to ensure macroeconomic stability and economic competitiveness. In recent years, the exchange rate of the pula has gradually appreciated, thus eroding the competitive position of Botswana's exporters and domestic producers competing with imports. In 2002, the pula depreciated in nominal terms against the rand by 8.1 per cent and appreciated against the US dollar by 27.7 per cent. In real terms, it depreciated against the rand by 10.7 per cent while it appreciated against the US dollar by 28.5 per cent. The real effective exchange rate of the pula appreciated by 2.9 per cent in 2002. In order to counter the effects of the real appreciation of the pula, and to improve the competitiveness of Botswana's products in domestic, regional and international markets, the authorities devalued the pula by 7.5 per cent on 5 February 2004.

### External Position

Botswana's trade policy is geared towards making the economy competitive in both regional and global markets. Botswana is a member of the Southern Africa Customs Union (SACU) and of the Southern Africa Development Community (SADC). As a member of SACU, Botswana is involved in the free trade agreement signed between South Africa and the European Union (EU) in 2000. Also in 2003, negotiations were initiated by the SADC Member States for Economic Partnership Agreements (EPAs) with the EU. In June 2003, negotiations started aimed at launching a free trade area between SACU and the United States. The



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • An Lecture seule



successful completion of these negotiations, expected by December 2004, will provide increased markets for exports from SACU countries. Concerning preferential trade with the United States, Botswana has qualified for duty free and quota free exports to the US under the AGOA (African Growth and Opportunity Act). At the end of 2003, authorities were negotiating an extension of the AGOA through 2008.

The current account of Botswana has remained in structural surplus as a result of substantial trade surplus. However, total exports, as a share of total GDP, have been declining since reaching a peak in 2000/01. Consequently, the trade surplus has followed a declining trend and contributed to a declining current account balance. The outlook on the external payments situation is a continuing decline in the trade balance in 2003/04 as the surge in diamond exports was offset by strong import growth, associated with the large budget deficit in 2002/03 and the appreciation of the pula. In 2004/05, it is anticipated that the trade balance will improve following an improvement in diamond exports reflecting rising production.

Along with the declining current account surplus, foreign exchange reserves have also been declining in recent years. The foreign exchange reserves at the end of 2002 stood at $5.47 billion, which was the equivalent of 32 months of imports of goods and services. By the end of 2003, the foreign exchange reserves had declined further to $5.3 billion, equivalent to 26 months of imports of goods and services.

In spite of the recent declining share of exports in total GDP, in nominal terms, the value of exports have been growing at an annual average of about 6.3 per cent between 1999/00 and 2002/03, with diamond output expanding its share of export earnings from about 70 per cent to 85 per cent over the same period. The rise in the share of diamonds has been due in part to the sharp reduction in export values of vehicles and parts following the closure of the Hyundai vehicle assembly plant in 1998, and also a reduction in the value of textiles. At the same time during the past three years the value of diamond exports increased by about 10 per cent. On the import side, the total value of imports increased by an annual average of about 3.5 per cent



Table 3 - **Current Account** (percentage of GDP)

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| Trade Balance | 15.8 | 19.1 | 23.6 | 10.2 | 7.9 | 7.1 | 8.2 |
| Exports of goods (f.o.b) | 47.6 | 54.7 | 54.9 | 40.7 | 36.8 | 34.7 | 35.0 |
| Imports of goods (f.o.b) | -31.9 | -35.5 | -31.3 | -30.5 | -29.0 | -27.6 | -26.8 |
| Services | -3.9 | -3.7 | -3.7 | -1.8 | | | |
| Factor income | -3.3 | -6.0 | -4.5 | -8.2 | | | |
| Current transfers | 1.7 | 4.6 | 3.9 | 3.9 | | | |
| **Current account balance** | **10.3** | **13.9** | **19.2** | **4.2** | | | |

**Source:** : Domestic authorities' data; projections based on authors' calculations.

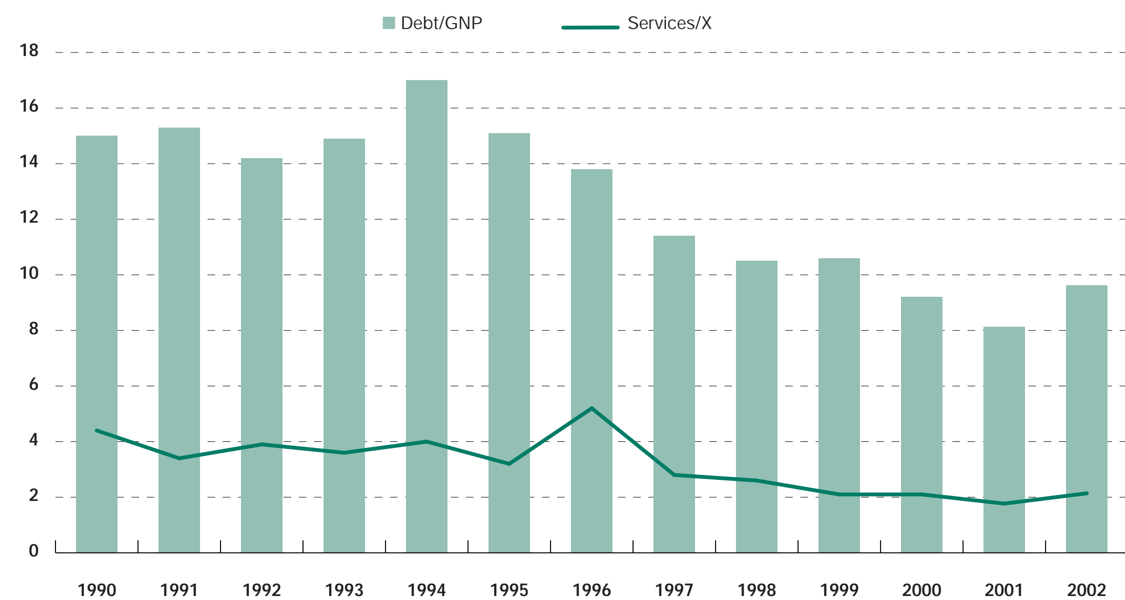
between 1999/00 to 2002/03, with the largest increases concentrated in fuels and wood, food, and paper products.

A significant factor in Botswana's external account is foreign direct investment (FDI), which has been in decline in recent years, despite the country's favourable international credit rating. FDI declined from about $95.3 million in 1998 to $56.9 million in 2001. This was attributed to slower inflow to the mining sector, particularly as diamond output appeared to reach a plateau. Other factors inhibiting the inflow of FDI included the limited domestic market, which has recently been weakened by the economic effects of the HIV/AIDS scourge. However, in 2002/2003, FDI recorded a remarkable increase to $386.7 million or 6.3 per cent of GDP. The increase in 2002/2003 reflected recovery in confidence in the economy by foreign firms following the discovery of new diamond mines.

© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** World Bank.



The total external debt of Botswana stood at $482 million at the end of 2002. The total debt was equivalent to 8 per cent of GDP or 16 per cent of exports of goods and services. The debt stock in 2002 was comprised of 50 per cent multilateral loans, compared to 55.3 per cent in 2001. Bilateral loans accounted for 32.7 per cent in 2002, having declined slightly from 32.9 per cent in 2001. Botswana's debt service ratio was estimated to be 1.9 per cent in 2002. As a result of its low level of debt and its sizeable foreign reserves, Botswana remains one of the few developing countries that has not gone through the IMF/World Bank structural adjustment programme. It is anticipated that this situation would continue as Botswana continues its policy of limiting its public sector external debt.

## Structural Issues

The policy thrust of Botswana's NDP9, like the NDP8, is economic diversification of the country. Under the NDP9, the major policy focus is, among others, on privatisation, rural development, science and technology, and local enterprise development. In pursuit of its economic diversification agenda Botswana has, for a long time, offered some of the lowest tax rates in Southern Africa plus generous incentives, including programmes of equity injection, to attract foreign investment. Botswana Export Development and Investment Authority (BEDIA) also organises promotion missions to help bring in foreign investors, support producers to market their output, construct factory shells, and centralises the issue of licenses and permits. In addition, the business environment is very conducive, with good intra and inter-urban transport systems, efficient telecommunications and power supply networks, a contract law system that is enforced, and an efficient financial system. Also, a draft Competition Policy was introduced in May 2003, which has been discussed at a National Stakeholders Seminar on 6 February 2004. In an effort to attract foreign investment, an Investment Code was put in place in mid-2001. However, following peer review of the Botswana FDI Policy by UNCTAD in June 2002, a decision was taken to withdraw the Investment Code, as it was not considered investor-friendly enough. An FDI Strategy being prepared by UNCTAD and an FDI Law would replace it.

The policy for the energy sector under the NDP9 emphasises provision of affordable, environmentally-


© AfDB/OECD 2004

OECD Browse_it Edition • An OECD Read Only • Lecture seule

friendly and sustainable energy sources and optimal energy mix. The Ministry of Mines, Energy and Water Resources (MMEWR) is responsible for the formulation, direction and co-ordination of the national energy policy. Energy needs are met through both local production and imports. The fast economic growth of the country has caused total energy consumption to increase at an annual rate of about 20 per cent, thus underlying the need for the expansion of energy supply. The government has adopted an Integrated Energy Planning (IEP) process in order to meet the basic energy requirements of the economy. This includes the reactivation of a solar energy programme for which a feasibility study and detailed engineering design have been completed.

The Botswana Power Corporation (BPC), a parastatal under the MMEWR, is responsible for electricity generation and supply. About 60 per cent of power supply requirements are imported through connections to the South African, Namibian, Zambian and Zimbabwean electricity grid lines. Domestic power supply is generated from coal and petroleum. Total domestic electricity generation has been on an upward trend, increasing by a cumulative 30 per cent from 1999/2000 to 2002/03, from about 1 645 GW in 1999/2000. In terms of electricity usage, the larger percentage (47.1 per cent) is due to the mining industry, with commercial users and households accounting for 24.5 per cent and 19 per cent respectively. In terms of on-going projects, the Botswana Power Corporation (BPC) is currently implementing projects in several towns to improve the reliability of electricity supply. In addition, the BPC undertook a feasibility study in 2003 for the expansion of domestic electricity generation, against the backdrop that surplus power for the SADC region is projected to run out in the years 2007-2010. The government is also implementing a Renewable Energy and Power Development Project aimed at expanding domestic power generation. Furthermore, some progress was made during the period 1998-2003 in the implementation of a rural electrification programme.

Botswana is an oil-importing country. The demand for oil was about 25 775 MTOE in 2002/03, which represented about one-third of total primary energy demand in the country. Botswana has no refineries. Storage capacity in the country represents about 45 days of requirements. By sector, transport accounts for about 67 per cent of total petroleum consumption in the country. Industry and manufacturing account for about 15 per cent, while other sectors, including agriculture account for the rest.

Coal utilisation in Botswana is low. Botswana has two coal depots with a total output of about 948 000 tonnes. The two depots, in Francistown and Gaborone, are in private operation, under a lease from the government. Coal utilisation in the household sector is hampered by the non-availability of affordable coal-fired equipment. In the industrial and commercial sectors, the major impediment to the use of locally-produced coal is the quality of the coal itself, which is said to contain a lot of incombustible material which increases the utilisation cost. The government conducted a Coal Export Market study in 2002 to explore the possibility of exporting coal from Botswana. The study, however, concluded that there is a competitive disadvantage against Botswana coal on the export market on account of high transport costs to the main markets in Europe, the United States, Asia, Japan, India, China, and the Middle East. Capacity development in the coal sector therefore depends on domestic demand.

The objective of privatisation in Botswana remains the improvement of efficiency in the delivery of services and the creation of opportunities for private sector growth, which sets the programme aside from most other African countries, where privatisation had been dictated by the need to improve financial performance of state-owned enterprises (SOEs). The privatisation programme in Botswana, initiated in 1998 to sell 65 public enterprises has, however, not met with much success.

In an effort to revamp the privatisation process, the government set up the Public Enterprises Evaluation and Privatisation Agency (PEEPA) in 2002 to evaluate the programme and prepare a Plan for its speedy implementation. However, PEEPA encountered a series of difficulties in co-ordinating with parastatals and parent ministries. This is mainly due to the lack of



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

statutory authority giving it power to drive privatisation. This enables public enterprises and certain government departments to ignore requests and initiatives made by PEEPA.

The SOEs slated for privatisation include Air Botswana, the Central Transportation Organisation, and Botswana Telecommunications Corporation. Also being considered for privatisation are the National Development Bank and Botswana Savings Bank.

The privatisation of Air Botswana, planned since 1998 but delayed due to the worldwide deterioration in the aviation industry, stalled in January 2004, as the only remaining bidder – the South African Airline Comair – withdrew the bid of a 49 per cent stake in the company. In order to avoid speculation that the airline was in financial trouble, the government stressed that the privatisation objective remained and there are possibilities that the government will proceed with an initial public offering of Air Botswana without first acquiring a strategic partner for the airline.

Although the programme has not progressed as fast as required, some concrete actions have been taken. For example, the telecommunications sector has been liberalised by bringing in other players (mobile phone operators) to operate alongside the Botswana Telecommunication Corporation, thus enhancing competition and efficiency gains in the sector. In early 2004, the Botswana telecommunications authority advertised for consultants to advise on how to introduce more competition also into the fixed line services.

The financial sector in Botswana is of modern standard with internationally comparable quality levels. The commercial banks maintain prudential ratios in excess of statutory requirements. A policy on disclosure of bank charges has been in existence since 2001 to encourage greater transparency in the financial sector. Pula credit cards, internationally accepted Visa debit card facilities and telephone banking services are also widely available. An electronic clearinghouse was introduced in 2002 linking the Bank of Botswana (BOB) with the commercial banks. The Bank of Botswana has continued with its policy of consulting with the commercial banks on tariff structure in the financial system. In 2003, some commercial banks, in response to the BOB consultations, pledged not to increase charges. Progress was also made in 2002 on the International Financial Services Centre (IFSC) project, launched in 2000, and designed to act as an intermediation process for investment funds from South Africa and the rest of the world into other parts of Africa. In 2002, three projects were approved under the IFSC with a further three projects approved in 2003. In 2003, the government introduced legislation to include the provision of reinsurance services in the range of financial services that the IFSC can provide. The Botswana Stock Exchange (BSE) has recorded consistent growth since 1995 and is set to make further gains owing to the expected boost to demand caused by the establishment, in 2002, of a contributory pension fund for civil servants, 30 per cent of the assets of which must be invested locally. The BSE has been further aided by the Government's Pula-denominated bond issue (Public Debt Service Fund) introduced in 2003.

## Political and Social Context

Botswana remains one of the few politically stable democratic countries in Africa. It has a track record of peaceful succession through free and fair elections held every five years. All eight elections held since 1966 have been regarded as free and fair. The last election was in 1999 and the next one is due in 2004. However, recently a growing disenfranchisement felt by minority groups, especially the Basara (bushmen), has become a political issue. In response, parliament has endorsed recommendations for a change in the constitution to allow for increased representation of smaller ethnic groups in the House of Chiefs. The government has continued a decentralisation process since 2002 to strengthen Local Authorities' capacity. To this end, the Local Government Structure Committee Report was presented to Parliament in 2003.

Botswana's flexibility in responding to changing political circumstances without major disruption is underpinned by a track record of good governance. On respect for human rights, prevalence of the rule of law, and



 © AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



enforcement of accountability/transparency practices, the record of Botswana has been commendable over the years. The country tops the list for the whole of Africa in the ranking of Transparency International. The country's multi-party democracy is embedded with a clear demarcation of powers and responsibilities between the executive, legislature and judiciary. The inviolability of property rights is guaranteed by the constitution and legal statutes are regularly revised to reflect society's needs and preferences. A Directorate on Corruption and Economic Crimes (DCEC) has been established for several years now, which investigates complaints originating from both the general public and commercial competitors on all matters of the management of public funds and public assets.

Botswana has made substantial progress in poverty reduction since independence. From independence (in 1966), as one of the poorest countries in Africa, Botswana has within three decades, become a middle-income country with one of the highest per capita incomes in the continent. Remarkable progress has been achieved on both income and non-income indicators of poverty. The incidence of poverty, as measured by the number of people living below the national poverty line (which is a little higher than the one-dollar-per-day international poverty line) declined from a high of 59 per cent in 1985/86 to 47 per cent in 1994/95 and to 36.7 per cent in 2002/03. Despite these improvements, the current rate is high and is comparable to problems of poverty in low-income African countries. The level of income inequality is also quite high, with a Gini coefficient estimated at 0.54, one of the highest in Africa. An important feature of poverty in Botswana is its high incidence among female-headed households – 50 per cent, compared to 36.7 per cent for the continent as a whole. The unemployment rate for youth is also quite high. In addition, the regional variation in the incidence of poverty is wide, with the western regions being the poorest.

Botswana is saddled with health problems with HIV/AIDS as the main health issue. Botswana faces one of the highest incidence rates of HIV/AIDS in the world. According to the UNAIDS 2002 Report, the prevalence rate among adults (15-49 age group) rose from 33.2 per cent in 1996 to 39.4 per cent in 2001. Some of the known factors behind the fast rate of transmission of the virus in the country include: *i)* multiple sexual relationships; *ii)* insufficient condom use; *iii)* presence of other sexually-transmitted infections (STIs); and *iv)* the nature of the HIV –I subtype C virus responsible for the affliction in Botswana, which is believed to be relatively more easily transmissible than the others. The social and economic consequences of the HIV/AIDS scourge on Botswana include an overburdened health system, a deteriorating public education system, a declining economic growth rate due to labour shortage especially in the non-mining sector, and a threat to the hitherto impressive improvements in living standards. There has been a significant increase in the number of orphans in the country as a result parents dying of AIDS. An estimated 138 000 Batswana had died of Aids by 2002, with 69 000 children orphaned by the epidemics. Life expectancy at birth that increased from 56.5 years in 1981 to 65.3 years in 1991 had declined to 57 years in 2001. According to an IMF study, the population is expected to decline to 1.3 million in 2015, compared with a non-Aids scenario of 2.5 million. To combat the HIV/AIDS scourge, the government has prepared a multi-sectoral and comprehensive National HIV/AIDS Policy and a National HIV/AIDS Strategic Framework (2003-2009). The multilateral approach of the national strategy is based on several pillars, including: prevention, care and support, management of national response, economic impact mitigation, and strengthening of legal and ethical environment. A National AIDS Coordinating Agency (NACA) has been established to co-ordinate the planning and implementation of various HIV/AIDS interventions. The government's determination in combating the HIV/AIDS menace is demonstrated by the substantial budgetary allocations made to HIV/AIDS Programmes. This allocation has increased from an equivalent of 1.7 per cent of GDP in 1999/2000 to nearly 4.3 per cent of GDP in 2002/2003. Among the specific projects undertaken in response to the HIV/AIDS threat is the Baylor Children Clinical Centre, started in 2002 and completed in 2003. The Centre provides care and treatment for HIV-infected infants and children. Also,

OECD Browse_it Edition • Read Only • Lecture seule

since its introduction in 2001/2002, ARV therapy is now being implemented in four centres. By February 2003, a total of 4 425 persons were enrolled for the therapy, which is about 2 per cent of persons affected. Further, the Prevention of Mother to Children Transmission of HIV/AIDS programme is ongoing. In addition, to mitigate some of the impacts on health personnel, an emotional and psychological support programme is currently being implemented in some centres.

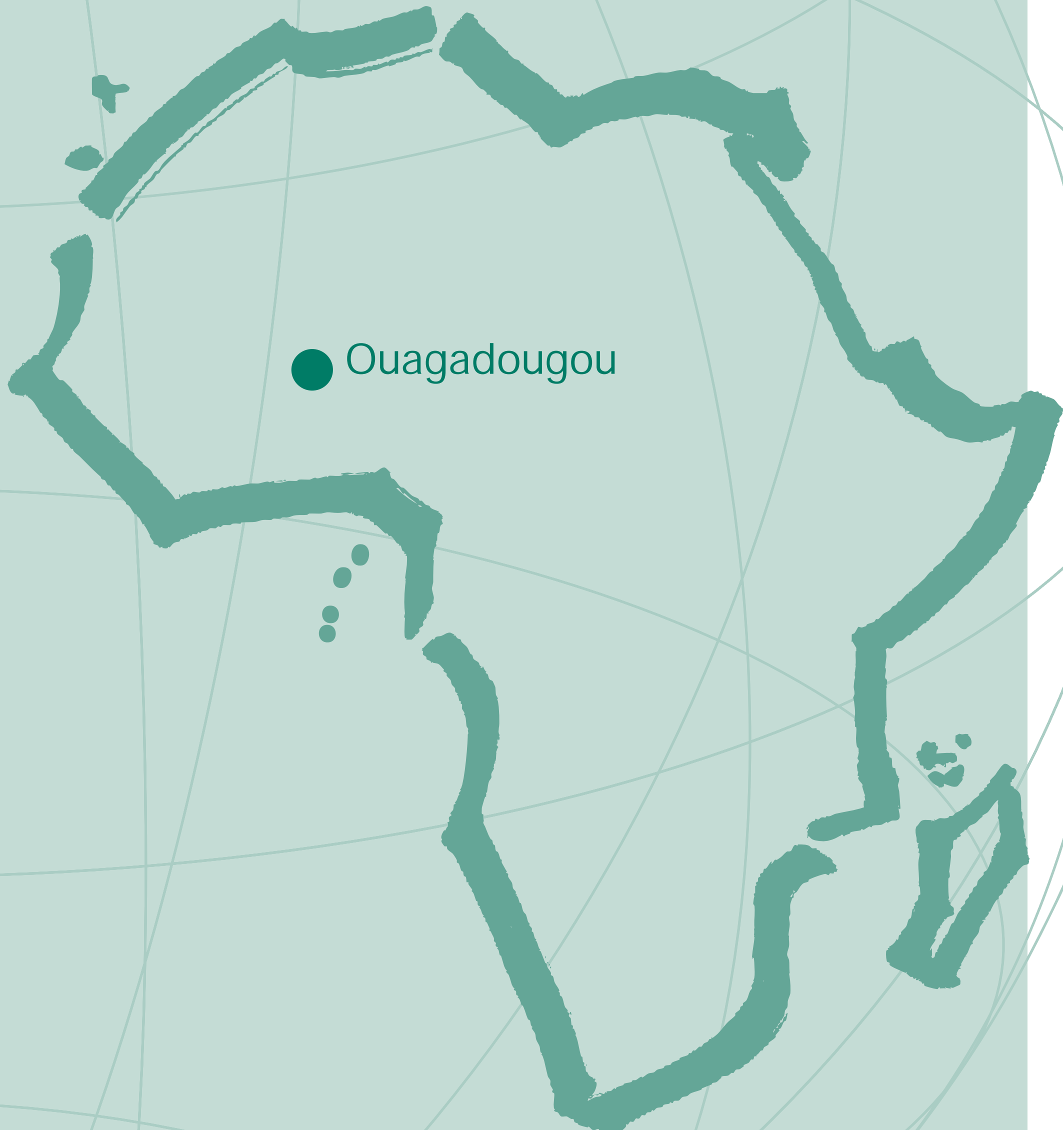
Education is virtually free in Botswana. However, in 2003, the cabinet approved user fees in education that are expected to come into effect in 2006. Botswana has high gross primary and secondary school enrolment ratios at 116 and 89 per cent respectively. However, the education system is beset with low-quality teaching due to the high number of untrained teachers. Consequently, the country suffers from shortages of skilled manpower. Moreover, the impact of HIV/AIDS is adversely affecting school enrolment; and the productivity of teachers is being eroded by increased morbidity, absenteeism and mortality. The resulting exacerbation of the skills shortage and loss of earnings are having a detrimental effect on all sectors of the economy. In order to address many of the shortages of skilled manpower currently experienced, more emphasis is being placed on conventional and technical education. An expansion programme for all senior secondary schools, which began in 2001, is expected to be completed in 2004. In the area of technical and vocational training, major activities include construction of the Francistown College of Technical and Vocational Education and three other technical colleges. In line with the government's determination to improve education, increased budgetary allocations continue to be made to the sector. The allocation to education increased from about 25 per cent of total expenditure in 2001/02 –2002/03 to nearly 30 per cent under the 2003/2004 Budget.





© AfDB/OECD 2004

# Burkina Faso




**key figures**

- Land area, thousands of km² 274
- Population, thousands (2002) 12 624
- GDP per capita, $ (2002) 223
- Life expectancy (2000-2005) 45.7
- Illiteracy rate (2002) 74.3

An OECD Browse_it Edition • Read Only • Lecture seule

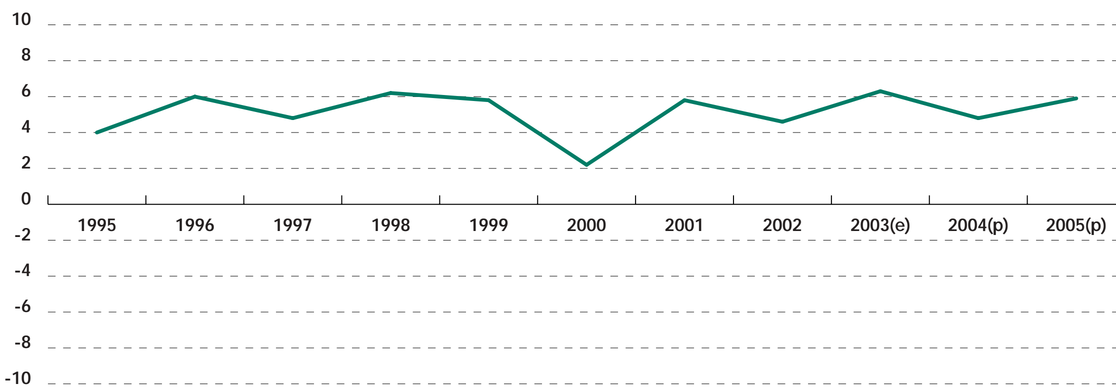
WHEN THE SITUATION in neighbouring Côte d'Ivoire deteriorated in mid-2002, there were fears that the border closing (in September of that year) would cause a sharp economic downturn in Burkina Faso, via inflation and the collapse of growth. This did not happen, however, and the growth of 4.6 per cent in 2002 expanded to an estimated 6.3 per cent in 2003 thanks to speedy action by the government (and landlocked Burkina's other neighbours) to avoid road congestion and a break in the flow of exports and imports. The private sector adapted too and found other routes through Ghana, Togo and Benin.

Above all, the economy benefited in 2002 and 2003 from good world prices for abundant cotton harvests. Burkina survived the Ivorian crisis despite its structural weaknesses, such as lack of diversification (the dominance of cotton), dependence on external funding, very poor health and education facilities, and very little success in reducing poverty. The cotton harvest is expected to be good in 2004 and should boost growth, which could reach 4.8 per cent. However, the strength of the euro, cotton price uncertainties, and still unpredictable medium-term effects of the Ivorian situation (especially the rapid deterioration of roads and an expected drop in remittances from abroad) could hurt the economy over the next two years.

Despite the Ivorian crisis, good growth performance has been achieved owing to the dynamism of the cotton sector.



Figure 1 - **Real GDP Growth**




**Source:** IMF and domestic authorities' data: projections based on authors' calculations.

## Recent Economic Developments

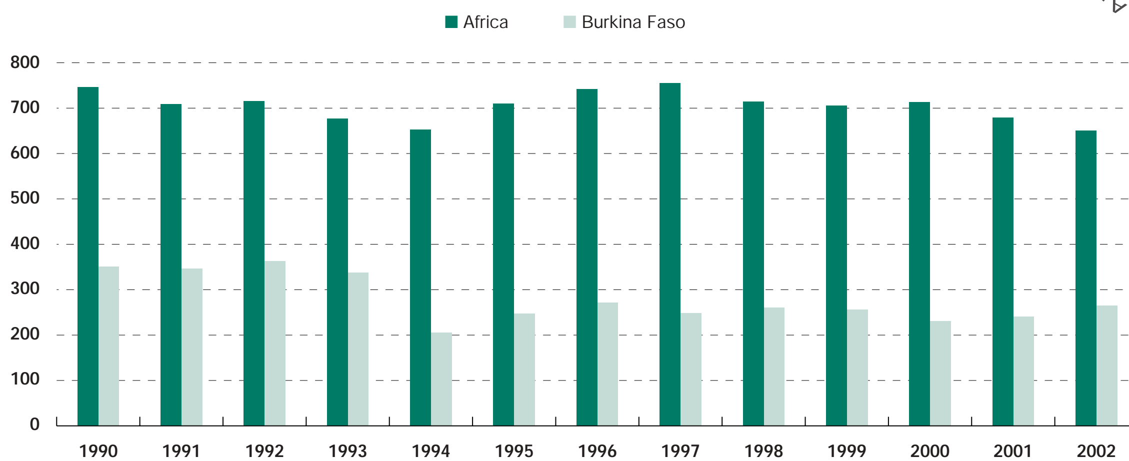
A robust primary sector (estimated by authorities to have grown in volume by 11 per cent) was one of the motors of growth in 2003 after a disappointing previous year (+0.3 per cent). An excellent 2002/03 cotton harvest (about 406 000 tonnes) made up for for middling results in exports of livestock (badly hit by the Ivorian border closure) and cereals.

Satisfactory rainfall, few pest problems, good prices for growers (185 CFA francs per kg of cottonseed), and a greater area sown[1] produced a record 2003/04 cotton harvest of about 500 000 tonnes. This excellent

1. The return home of many Burkinabe from Côte d'Ivoire partly accounts for this.

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.



performance allowed the state-owned cotton marketing monopoly Sofitex to offer 205 CFA francs per kg of cottonseed for the 2004/05 season[2]. Problems getting inputs to growers and moving exports were feared after the border closure, but the situation was eased by shipping goods through the ports of Tema, Cotonou and Lome. The government also provided a 3.2 billion CFA franc ($5.4 million) subsidy to soften the effect of higher prices of inputs for farmers. Regular rainfall also helped produce a record increase in cereals production (estimated by the authorities at 16.8 per cent).

Cotton is vital to the country's economy; it accounted for 57 per cent of exports by value in 2002 (97 per cent of it is exported) and involved 200 000 farms. The industry is well run and growers work closely with each other and with Sofitex. However, the government, in agreement with the World Bank, has begun to open up the sector. Bids were invited to revive Sofitex activities in the Ouagadougou region and in Fada N'Gourma in the east, which together account for 17 per cent of total production. The two winning firms are expected to start operating by June 2004.

The aim is for these large international firms to provide growers, especially in the Fada region, with resources and skills to improve their land, much of which is virtually untouched or only farmed by primitive methods and thus ripe for improvement. Granting a free hand until further notice to the successful bidders has raised doubts about whether this provides them with enough incentive to do better than Sofitex.

The economy's dependence on agriculture (33 per cent of GDP in 2002) is worrying, especially as farming is mostly geared towards private consumption, often poorly organised (except for the cotton sector), and outdated (with high illiteracy among farmers). The cereals sector is a good example, with major production (247 billion CFA francs – $421.5 million – out of a total farm output of 542 billion CFA francs – $925.2 million), but poor organisation and strong price fluctuations destabilise production. Thus in 2003, much higher output (about +23 per cent for maize) far exceeded storage capacity and caused prices to collapse (by about 40 per cent for maize), which may in turn cause a slump in production in 2004/05.

Increased gold output may help reduce dependence on agriculture. The steady price of the metal and reform of the mining law has revived prospecting and several quite big operations should start up soon. Prospecting is well advanced at Mana-Wona (the firm Semafo), Essakane (Orezone), Youga (bought from Ashanti Goldfields by Etruscan), Kalsaka (Cluff Mining) and

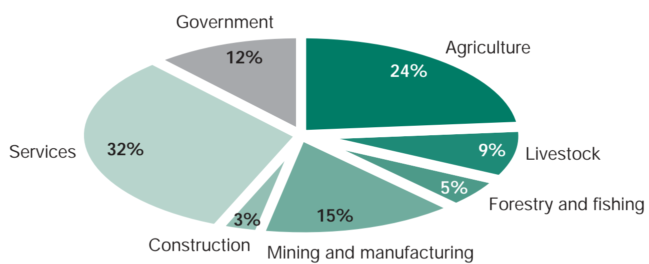
2. These prices should be a strong incentive to growers and Sofitex predicts a 2004/05 harvest of some 600 000 tonnes.



© AfDB/OECD 2004

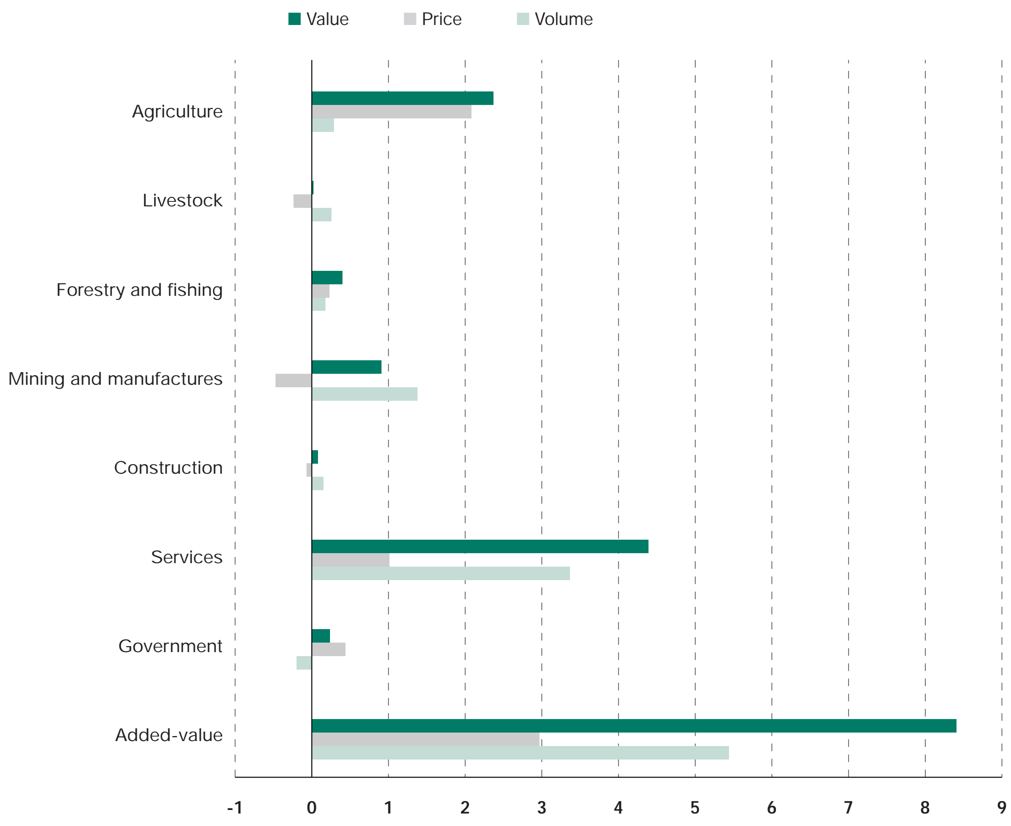
An OECD Browse_it Edition • Read Only • Lecture seule

## Figure 3 - GDP by Sector in 2002




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

## Figure 4 - Sectoral Contribution to GDP Growth in 2002




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

Taparko (High River Gold). Two of the firms have announced they will begin mining in 2005 – Etruscan at Youga, where accessible reserves are put at 21 tonnes and annual production at 3 tonnes (starting date at the end of the year), and High River Gold at Taparko, with reserves of around 20 tonnes and annual production 3 tonnes (starting early in the year). Total production in 2005 could therefore be about 4-5 tonnes.

Gold production is meanwhile in the largely informal hands of alluvial miners whose output is hard to measure but is socially and economically important. The country's mining potential is mostly limited to gold, since extracting heavy metals such as manganese or zinc is ruled out by high non-mining costs (50-60 per cent of the total), mainly transport. Major investments would be needed and profit demands would require

OECD Browse_it Edition • Read Only • Lecture seule

Figure 5 - **Evolution of Cotton Production and Price in Burkina Faso**

**Note:** Production and price to producers are for cottonseed based on each harvest. International prices are for cotton fibre; the conversion rate of 42 per cent has thus been applied to produce the cottonseed equivalent. This corresponds to the calendar year average (year n+1 for a harvest n/n+1).
**Source:** IMF and World Bank.



large-scale polymetallic operations (to cushion against price fluctuations), which would be hard to organise in Burkina.

In 2002, industry accounted for about 18 per cent of GDP and barely 11 per cent of exports. It is dominated by agro-industry and cotton ginning. The weak industrial sector illustrates the problem of economic diversification in the face of very high factor costs (expensive electricity and strict labour laws), heavy taxation of the small number of firms, and few comparative advantages, especially in human resources.

There was great concern in late 2002 and early 2003 about the possible effect of the Côte d'Ivoire crisis on Burkina's industry. However, the impact seems to have been small, since the industrial sector (except mining) grew by an estimated 6 per cent in 2003 (compared with 4.7 per cent in 2002) and some firms, especially agro-industries, benefited from local products replacing Ivorian imports. Industries such as chemicals, metalworking and construction, which depend heavily on intermediate imports suffered more from the higher cost of these goods. The Ivorian crisis seems to have caused firms already in great difficulty, such as the Grands Moulins du Burkina Faso (GMB) milling company, to shut down, and further damaged others, such as the sugar company SN-Sosuco and especially those in the Bobo-Dioulasso and Banfora areas not far from the Ivorian border.

The services sector contributed about 44 per cent of GDP in 2002. Its growth in 2002 (10.8 per cent) and 2003 (estimated at 4 per cent) was mainly due to the buoyant transport sub-sector, especially road haulage, which was much in demand, after the border closure and suspension of the railway line between the two countries (from Ouagadougou to Kaya), to carry goods through Ghana, Togo and Benin (including those coming from Mali and Niger).

The economy grew by 4.6 per cent in 2002 and by an estimated 6.3 per cent in 2003, largely owing to public investment (which rose by 11.1 per cent in 2003) and


© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



**Table 1 - Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **26.6** | **28.4** | **28.0** | **26.8** | **27.6** | **27.0** | **26.8** |
| Public | 13.4 | 14.5 | 14.7 | 12.6 | 13.4 | 13.1 | 13.0 |
| Private | 13.1 | 13.9 | 13.3 | 14.1 | 14.2 | 13.9 | 13.8 |
| **Consumption** | **87.1** | **90.3** | **87.9** | **87.9** | **85.9** | **86.0** | **87.1** |
| Public | 16.2 | 18.0 | 17.3 | 17.1 | 16.6 | 16.0 | 15.9 |
| Private | 70.9 | 72.3 | 70.5 | 70.8 | 69.3 | 70.0 | 71.2 |
| **External Sector** | **-13.7** | **-18.6** | **-15.8** | **-14.7** | **-13.5** | **-13.0** | **-13.9** |
| Exports | 15.6 | 10.5 | 10.5 | 10.3 | 10.2 | 10.9 | 10.7 |
| Imports | -29.3 | -29.1 | -26.4 | -25.0 | -23.7 | -23.9 | -24.6 |

**Source:** Ministry of Economy and Finance data; projections based on authors' calculations.

to strong consumer demand (up by an estimated 5.9 per cent) created by higher income from the cotton sector. Remittances from Burkinabe workers abroad were still important and did not fall as much as expected because of the Ivorian crisis. The 350 000 or so Burkinabe who returned from Côte d'Ivoire in 2003 brought their savings back with them. The robust internal demand produced a growth in imports (by an estimated 3.8 per cent) and foreign trade made a negative contribution to growth in 2003.

Growth prospects for 2004 are good (estimated at 4.8 per cent) but some big questions remain. The abundant 2002/03 cotton harvest and an expected good one in 2003/04 will keep household consumption at a healthy level. However, the strength of the euro may do increasing damage to exports, including cotton, as well to the national budget through lower tax revenue (and thus lower government spending), so overall household consumption may decline. There may also be medium-term effects of the Ivorian crisis. For example, very heavy road traffic has significantly damaged road surfaces, which may slow growth in the next two years. Remittances by Burkinabe still in Côte d'Ivoire may fall sharply as well, and the savings brought back by returnees in 2003 may have constituted a peak[3].

## Macroeconomic Policy

### Fiscal and Monetary Policy

Since the WAEMU/UEMOA convergence, stability, growth and solidarity agreement came into effect in December 1999, macroeconomic policy has aimed to comply with its convergence criteria to prepare for economic integration in 2005. In 2002, all first-level criteria were respected except those relating to overall budget out turn (which remained negative) and one second-level criterion (capital expenditures on domestic finance which are higher than 20 per cent). In 2003, the overall budget deficit should have been considerably reduced and all first-level criteria should be close to being met.

Great progress has been made in stabilising public finance under IMF supervision since 1991. This success, along with continuing budgetary problems, led the IMF in June 2003 to extend for three years the country's access to the poverty reduction and growth facility (PRGF), which the country had previously benefited from until December 2002.

The budget deficit was held to 5 per cent of GDP (including grants) in 2002 and was expected to reach

3. The reopening of the border in November 2003 is not expected to normalise trade immediately since the political situation in Côte d'Ivoire is still extremely tense.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

4.5 per cent (97 billion CFA francs – $141.5 million) in 2003 – higher than the rough target of 59.9 billion CFA francs ($102.2 million) set under the PRGF but not alarming. It was entirely caused by the unexpectedly sharp drop of about 70 billion CFA francs ($119 million) in grants in 2003. Budget performance was satisfactory, with government revenue more than 9 billion CFA francs ($15.3 million) over the PRGF target thanks to higher tax revenue (company tax, VAT and customs duties).

The increase in revenues was due to stronger than expected growth and the movement of some imports through Ghana (thus subject to the WAEMU/UEMOA common external tariff) that would normally go through Côte d'Ivoire. Government spending was brought under control, to 31 billion CFA francs ($52.9 million) below the PRGF target, though this figure is deceptive as it is largely explained by capital spending which undershot the target by some 32 billion CFA francs ($54.6 million).

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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants[a]** | **20.8** | **22.0** | **17.3** | **19.5** | **19.8** | **19.1** | **18.7** |
| Tax revenue | 11.8 | 12.6 | 11.8 | 12.5 | 12.6 | 12.5 | 12.7 |
| Grants | 8.1 | 8.4 | 4.7 | 6.1 | 6.2 | 5.6 | 5.1 |
| **Total expenditure and net lending[a]** | **21.1** | **27.0** | **25.1** | **24.5** | **24.3** | **22.6** | **22.2** |
| Current expenditure | 12.2 | 12.2 | 11.9 | 12.9 | 12.0 | 11.9 | 11.7 |
| *Excluding interest* | *10.7* | *11.1* | *10.9* | *12.0* | *11.2* | *11.1* | *11.0* |
| Wages and salaries | 5.7 | 5.5 | 5.4 | 5.3 | 5.2 | 5.1 | 5.1 |
| Interest | 1.5 | 1.0 | 1.0 | 0.9 | 0.8 | 0.8 | 0.7 |
| Capital expenditure | 9.2 | 14.7 | 13.3 | 11.8 | 11.1 | 10.9 | 10.8 |
| **Primary balance** | **1.2** | **-4.0** | **-6.8** | **-4.1** | **-3.7** | **-2.7** | **-2.8** |
| **Overall balance** | **-0.3** | **-5.0** | **-7.8** | **-5.0** | **-4.5** | **-3.5** | **-3.5** |

a. Only major items are reported.
**Source:** IMF and Ministry of Economy and Finance data; projections based on authors' calculations.



The 2004 budget (adopted in December 2003) is little different from the previous year and is based on relatively optimistic (but credible) projected growth of 5.5 per cent. Projected growth in capital expenditure (+12 per cent), due to extensive road damage caused by heavier traffic, and higher tax revenue (+19.5 per cent) are positive aspects. Problems with capital spending commitments and tax collection (plus the problem of the strong euro) however, put these targets in doubt.

Despite good budget performances, government finances are still very structurally weak. Budgets largely depend on external funding (grants were 31 per cent of total revenue in 2003), which financed the entire public deficit (not including grants). Tax revenue is rising but it still only accounts for 12.5 per cent of GDP, well below the WAEMU/UEMOA convergence criterion of 17 per cent. It is held down by the narrow tax base, itself limited by the very low standard of living, especially in the countryside, and the size of the informal sector, which all means an excessive burden on the few companies in the formal economy.

Management of budgeted expenditure is also a weak point in the system and only 52 per cent of donor funds were disbursed in 2002. Use of HIPC funding is especially tricky and only 42.5 billion of 77 billion CFA francs ($131.4 million) worth of debt relief obtained between 2000 and 2003 had been taken up by early 2004. Such delays arise from problems in drawing up projects, partly due to lack of co-ordination between technical ministries and the treasury. Inadequate planning complicates actual spending and 49 billion CFA francs ($83.6 million) was committed but not spent at the end of 2003. Long, drawn-out procedures (drafting, signature) for awarding government contracts are a major cause of complication, as well as the current decentralisation of aid from some donors due to lack of capacity at local public and private sector levels.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

Efforts have been made to strengthen government finances and an ambitious target of tax revenue equal to 14 per cent of GDP has been set for 2005 (the figure is more likely to remain below 13 per cent). The tax structure is to be streamlined and inspections stepped up to reduce the untaxed informal sector. Computerisation of collection (integrated revenue network) is planned and is a structural performance criterion in the June 2003 PRGF (customs computerisation has already started). An integrated expenditure network has been built and is being decentralised to Bobo-Dioulasso. Organisation of government personnel expenditure will be made easier by an integrated management and salaries system (SIGASPE). Some funding sources, especially in the European Union, are trying to encourage better use of funds (mainly grants) allocated as development aid by introducing results-based conditionality (in terms of real disbursements and quality of expenditure). An enhanced budget management plan adopted by the government in July 2002 is still being discussed with the World Bank, but its funding is not yet assured.

The country's membership of the CFA zone and the monetary discipline that goes with it are strong factors in controlling inflation. The Ivorian crisis raised fears of inflation due to more costly transport, which affected some finished (food, textile and health) products and intermediary goods such as petroleum products (22 per cent of imports), fertilisers (18.4 per cent) and construction materials (10.2 per cent). Though inputs for some sectors, such as construction and agriculture, cost more, inflation in 2003 was only 1.8 per cent, compared with 2.3 per cent in 2002). A very good cereals harvest, which is expected to cut the price of farm products by an average of 20 per cent, and the strong rise in the euro (to which the CFA franc is pegged), were major anti-inflationary factors. The euro should continue to play this role in 2004 but the deterioration of the roads could increase transport costs further. The collapse of cereals prices in 2003 could also lead to a drop in production in 2004 (for example, through a smaller average planted) and as a consequence, to inflation, which could reach 2.5 per cent in 2004 and decrease to 1.4 per cent in 2005.

### *External Position*

The sharp rise in export earnings from cotton boosted total exports 11.3 per cent in 2003 (+4.6 per cent in 2002). The trade balance remained structurally weak however (with the deficit about 10 per cent of GDP in 2002 and projected at 9.3 per cent in 2003), the export jump showed the country's dependence on agricultural sales and thus its vulnerability to weather and drops in world prices. Farm products comprised 86 per cent of exports in 2002 (half of which were cotton) and prospects for diversification were very small. Only exports of gold (2.7 per cent of the total in 2002) are expected to increase as new mines open in 2005.

The sensitivity of the trade balance to agricultural exports mostly traded in dollars put it at the mercy of dollar/euro rate fluctuations. In 2002, and especially in 2003, the strong rise in the euro offset the combined benefits of higher cotton prices (+37 per cent in the FOB dollar price per tonne in 2003) and greater tonnage exported (up 8 per cent the same year), and total export revenue in CFA francs only rose 25 per cent in 2003. The strength of the euro may cause uncertainty among exporters in 2004. The country's poor economic diversification also explains the level of imports of intermediate goods and equipment (30 per cent of the total in 2002). The estimated 2.3 per cent growth of imports by value in 2003 was limited by the strong euro, which was a major factor in cheaper imports of oil (-7.3 per cent in CFA francs) and food (-25 per cent).

The large estimated current account deficit (mainly due to goods and services) of 10.7 per cent of GDP in 2002 (excluding external budgetary support) made the country acutely dependent on external funding. With a very small inflow of private capital (FDI is barely 2 per cent of the deficit, excluding grants), Burkina runs mainly on bilateral and multilateral grants and loans. Grants, budgetary support and project grants are a significant element (43 per cent of the current account deficit in 2002) and loans are on very soft terms. Burkina was one of the first countries to reach completion point under the enhanced HIPC Initiative in May 2002 and obtained nearly 77 billion CFA francs



© AfDB/OECD 2004 

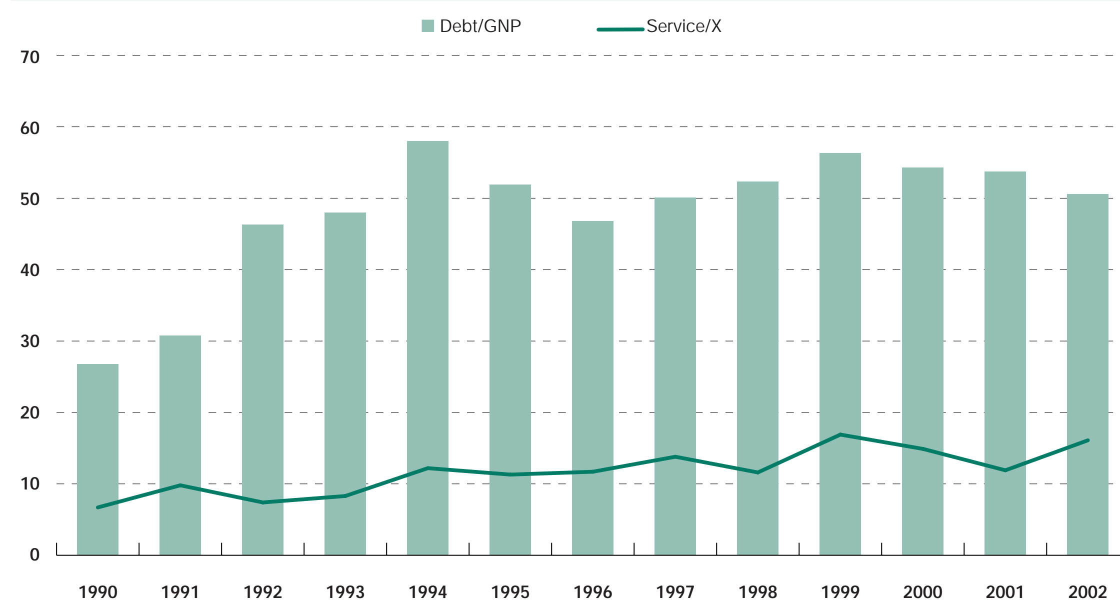
Browse_it Edition • Read Only • Lecture seule

**Table 3 - Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -9.7 | -13.8 | -11.6 | -10.8 | -9.3 | -8.8 | -9.7 |
| Exports of goods (f.o.b.) | 12.7 | 9.1 | 9.0 | 8.7 | 8.8 | 9.6 | 9.4 |
| Imports of goods (f.o.b.) | -22.4 | -22.9 | -20.7 | -19.5 | -18.1 | -18.4 | -19.1 |
| Services | -4.7 | -4.8 | -4.2 | -3.7 | | | |
| Factor income | 0.5 | -0.9 | -1.0 | -0.8 | | | |
| Current transfers | 10.2 | 5.4 | 5.0 | 4.6 | | | |
| **Current account balance** | **-3.7** | **-14.1** | **-11.8** | **-10.7** | | | |

**Source:** BCEAO data; projections based on authors' calculations.

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




**Source:** World Bank.

($131.4 million) in debt relief between 2000 and 2003 (24.2 billion in 2003 – $43 million). It is expected to receive an additional 22.7 billion CFA francs ($38.7 million) in 2004 and another 22.2 billion ($38.2 million) in 2005. The debt burden was reduced to 50.6 per cent of GNP in 2003 (about 150 per cent of exports NPV).

The country's heavy funding needs, continued use of credits, and structurally-limited export growth possibilities may increase the external debt again, and the ratio of NPV debt to exports could once more exceed 150 per cent. This seems likely, as the government has been reluctant to follow IMF requests to seek softer loans (with a 50 per cent instead of 35 per cent level of concessionality); since this would be refused by some funding sources and thus reduce total external funding. The IMF and the government eventually agreed on a 39 per cent component to be sought, but this may not be enough to halt the rising debt/exports ratio and quell fears of undermining the benefits of the HIPC programme.

## Structural Issues

The government continued the modernisation and structural reform in 2002 and 2003 that had begun in





© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



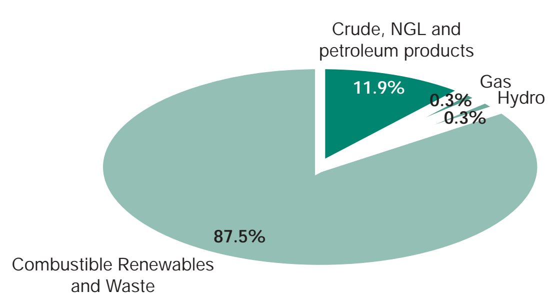
the 1990s, notably a long-awaited revision in June 2003 of the 1997 mining law, which had been considered one of region's least investor-friendly. The new law reduced the tax on mining company profits from 35 to 25 per cent, customs duties on machinery imports from 7.5 per cent to 2.5 per cent during initial construction, and granted exemption from VAT. Mining companies can also now put their profits in offshore accounts. On the governance front, the national ethics council set up in June 2001 to monitor corruption published its first, rather blunt report in 2003. The UNDP's *Human Development Report* on Burkina Faso for 2003, entitled *Corruption and Human Development*, said however that, while the many bodies set up to fight corruption was proof of political sincerity, the effort was disorganised and poorly planned.

The government's December 2000 report on energy development policy said inefficiency in the sector was driving up production costs for businesses. The country's heavily subsidised (12 billion CFA francs – $20.5 million a year) energy supply is one of the most expensive in the region and an obstacle to economic diversification. Burkina's energy consumption is very low, traditional sources are dominant (85-87 per cent wood, 12 per cent oil-based and 2 per cent electricity), and modern forms of energy are virtually absent from the countryside. The report established four energy development priorities, since adopted by the government. First, the government is considering regulatory and institutional reforms in the sector, including liberalisation of the electricity supply, which would involve amending the 1998 law[4] and setting up a regulatory body.

The government also plans to boost national capacity by 30 MW before 2010 to end the frequent power cuts in Ouagadougou. The World Bank is anxious to avoid costly investment and will only fund thermal plants no bigger than 14 MW (7 MW was funded by the government in 2002) pending the connection of Ouagadougou to Bobo-Dioulasso and the Ivorian grid. Electricity will then be much cheaper at around 35 CFA francs/kWh (48 CFA francs in Ouagadougou owing to technical losses of current). The expansion project, costing some $95.2 million and mostly financed by foreign sources, is delayed and will not be complete before 2007. The government's ability to offer cheaper current to businesses is limited by the high cost of producing it and low generation capacity. The accounts of the state electricity company Sonabel are healthy. However, its electricity sector is in deficit and will require a rate increase.

The two other aspects of the government's energy policy are part of the PRSP. Rural electrifications are to be increased to 15 per cent by 2005 from the 12.5 per cent figure for 2003. A special development fund was created for this in 2003 and the government may use different sources (such as photovoltaic and biomass energy), some of which involve private firms (in the case of micro-networks). Secondly, backed by foreign creditors, Burkina has begun to modernise the use of traditional

Figure 7 - **Structure of Domestic Energy Supply in 1996**




**Source:** Ministère des mines, des carrières et de l'énergie.

4. This allowed independent supply companies but only selling to one purchaser.

OECD Browse_it Edition • Read Only • Lecture seule

energy sources, especially wood for heating, to ensure environmentally-sustainable development.

Privatisation hardly advanced in 2003 and Sonabel, which was to be sold in late 2002, will now not be sold until 2005. The firm's accounts were audited in preparation but the government's plan to change its status requires further thought about how to reform and open up the electricity sub-sector. Privatisation of other state bodies should be easier. Opening the state oil importer and storage monopoly Sonabhy, and the state telecommunications company Onatel to private investors is to be completed in 2004. Analysis of the oil sector has been undertaken and it should soon be partly opened up to competition. "Due diligence" should be carried out at Onatel in early 2004 and lead to disposal of 34 per cent of its capital and a management transfer, and then to a further 17 per cent sale of capital. Privatisation of the water firm Onea has not really begun owing to lack of a timetable and an in-depth analysis of the sub-sector.



Several state firms were consolidated in 2003, including obsolete bodies such as the regulatory Caisse Générale de Péréquation after liberalisation of the rice market and the end of subsidies for local producers. In other sectors, private companies simply took over from state firms, which led to closure of the pharmaceutical company Medifa, the National Well-Drilling Service, the National Farm Machinery Centre and the National Dam and Farm Irrigation Service.

The Ivorian crisis, especially the border closing, sparked fears that the transport network would become congested and the flow of goods to and from landlocked Burkina would become interrupted. About 80 per cent of the country's imports normally pass through its coastal neighbours, mainly via the port of Abidjan (44 per cent by volume before the crisis). The limited capacity of other major regional ports – Tema and Takoradi (Ghana), Cotonou (Benin) and Lome (Togo) – and their slower handling, outdated equipment, high or bogus charges, lack of security, pilfering and excessive bureaucracy therefore added to these suspicions. In addition to the parlous state of their access roads (especially through Togo and Benin), raised fears they would not be able to cope with the increased volume of goods from Burkina Faso.

Suspension of the Abidjan-Kaya railway line, normally carrying 900 000 tonnes of freight a year, and the passage of Malian freight through Burkina (since Mali's border with Côte d'Ivoire border was also closed) raised additional fears of overcrowded Burkinabe roads, rapid deterioration in their physical state, slower haulage of goods and higher transport costs. It was also thought the southwest of the country around Bobo-Dioulasso, the centre of national economic activity, would be isolated. The impact of the crisis was reduced by the regional government's efforts to ease freight transport problems and steps taken by port authorities in Tema, Cotonou and Lome. However, Burkina's road network (15 272 km of graded roads, 87 per cent of them unsurfaced) was badly damaged by increased traffic and vehicles exceeding the 13-tonne maximum lading.

The crisis dramatically highlighted the inadequacy of the country's and region's road network and should encourage the government to expand them (within the framework of WAEMU/UEMOA and, in the longer term, NEPAD) to make Burkina a regional crossroads and turn its landlocked status into an economic asset. It also showed the need to modernise the national road network, a priority of the transport sector programme (PST-2) for 2000-10[5].

The banking sector was reformed in the 1990s and the banks are closely regulated by the BCEAO. The percentage of non-performing loans is below 5 per cent (though gross rates are higher, around 11-12 per cent). The banks have excess liquidity, which shows the flaws of a timid banking system that, for want of a mortgage system, only lends to big firms, the government or specific operations such as cotton sector credits. Microfinance remains insignificant despite efforts at streamlining and consolidation.

5. The current cost of PST-2 is put at more than 558 billion francs CFA ($953 million), funded by about 20 foreign creditors recruited since 2003 by the World Bank ($144 million), the European Union ($129 million), and the Burkinabe government.

 © AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



## Political and Social Context

Events in Côte d'Ivoire and skilful management of domestic politics strengthened the hold of the ruling Congrès pour la Démocratie et le Progrès (CDP) party, in power since 1987. President Blaise Compaore survived the storm of protest set off by the December 1998 murder of journalist Norbert Zongo, editor of the newspaper l'*Indépendant,* thanks to institutional reforms (changing the voting system in parliamentary elections) and publicly apologising for the state's brutalities since independence (the National Day of Forgiveness on 30 March 2002).

He thus calmed growing unrest partly caused by the partly fictitious nature of the regime's democratic initiatives, perceptions of rampant corruption by the country's political rulers, and lack of progress in reducing poverty. The voting system change allowed many opposition candidates to be elected to parliament in May 2002 but did not seriously challenge the CDP's grip. The opposition is very divided, has little credibility and its most radical elements, once quick to mount violent protests and stir up the population, lost their energy as they took up seats in parliament. Civil society groups that emerged after the Zongo murder have also faded.

The Ivorian crisis helped to foster strong patriotic feelings centred on the person of Compaore, who fiercely denounced (notably during the Marcoussis talks between the Ivorian government and rebels) the attacks on Burkinabe citizens in Côte d'Ivoire. The government also announced with great fanfare an urgent repatriation scheme (Operation Bayiri) for Burkinabe fleeing Côte d'Ivoire that was very popular. The Ivorian crisis largely eclipsed suspicions about Burkinabe involvement in diamond smuggling from Sierra Leone and gave the country a regional image of victim. Compaore is therefore in a very strong position and currently has no rival for presidential elections due in 2005, when he will be 55.

Behind the regime's apparent strength, however, are political weaknesses and dubious episodes such as the mysterious abortive coup against Compaore announced by state security police in October 2003. This was suspected variously of being a bid to frighten the opposition (the leader of the Socialist Forces Front was jailed), a bid to accuse foreign countries (Togo and Côte d'Ivoire) or score-settling inside the regime (the defence minister resigned). This affair led to a certain amount of doubt and skepticism.

The government also faces a tense socio-political situation, partly due to lack of progress over the years in combating the country's deep poverty. Burkina Faso is one of world's poorest countries and its health and social indicators are very low, even compared with its neighbours. In 2003, just over 46 per cent of the population lived below the national poverty line (income of 82 672 CFA francs – $141 – a year), 92 per cent of them in the countryside, according to a household poverty survey by the national statistics and demography institute INSD.

Despite official determination, very little has been achieved in the fight against poverty and the Millennium Development Goals for 2015 are unlikely to be met. The INSD survey said poverty increased by two percentage points between 1994 and 2003, mainly in the towns, where it nearly doubled from 10.4 to 19.9 per cent. Increasing urbanisation due to rural migration in a stagnant formal job market, growth of very precarious informal employment, and lack of public services partly explains this. Poverty has also deepened and hardened, leaving the poorest even further below the poverty line in 2003 than they were in 1994. This phenomenon is most pronounced in the countryside, where inequality among the poor has probably been aggravated by rapid agricultural modernisation (volume production rose 17 per cent between 2000 and 2003).

Lack of progress on the anti-poverty front is alarming in view of the active support of foreign funding sources for government efforts. Speedy arrival at HIPC completion-point freed up substantial resources to fight poverty and external budgetary support (grants and soft loans) is plentiful. Burkina is also a priority country for World Bank grants. This aid is mostly budgetary support the country can make use of as it pleases. However, it should have been used more effectively for



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

development, but absorption problems, partial decentralisation of bilateral aid without suitable local capacity, and lack of interministerial co-ordination reduced the aid's effectiveness in alleviating poverty.

The weakness of the PRSP, which is supposed to co-ordinate and spell out anti-poverty priorities and action, is also cited as a reason for the meagre progress. The 2000-02 PRSP implementation report in December 2003 said the document was getting little attention from the authorities, that it had inadequate links to the national budget, and lacked a clear framework for implementation and assessment. The government is currently drafting a new action plan, prioritising sectoral policies to implement the PRSP. Extending it to drainage, the environment, anti-desertification, rural electrification and boosting small businesses is also planned.

The health situation is alarming. The INSD says life expectancy is only 45.4 years (one of the lowest in the region), morbidity very high (5.8 per cent), especially because of HIV/AIDS, juvenile and infant mortality is 104 per 1 000 births, while nearly a quarter of all children do not reach the age of five (197 per 1 000). Much progress has been made however in access to clean water, and 49 per cent of rural families obtained their supply from wells in 2003, compared with 38 per cent in 1994.

Education indicators are also disappointing, with less than a third of the population literate. Still, the most solid progress has been in this sector. The basic education ministry says gross primary enrolment, while very low, rose from 42.7 to 52.2 per cent between 2002 and 2003 (from 36.2 to 46 per cent for girls). The problems and challenges in this area are equally daunting, with poor quality teaching, schools without teachers, overcrowded classrooms, under-use of infrastructure, gender disparity, inadequate transfer from primary to secondary schooling, and very low enrolment in the countryside. Such weak health and education performances keep the country in a poverty trap and hinder its economic growth.


© AfDB/OECD 2004

# Cameroon

**key figures**

| | |
|---|---|
| • Land area, thousands of km² | 475 |
| • Population, thousands (2002) | 15 729 |
| • GDP per capita, $ (2002) | 699 |
| • Life expectancy (2000-2005) | 46.2 |
| • Illiteracy rate (2002) | 26.5 |

An OECD Browse_it Edition • Read Only • Lecture seule

# Cameroon

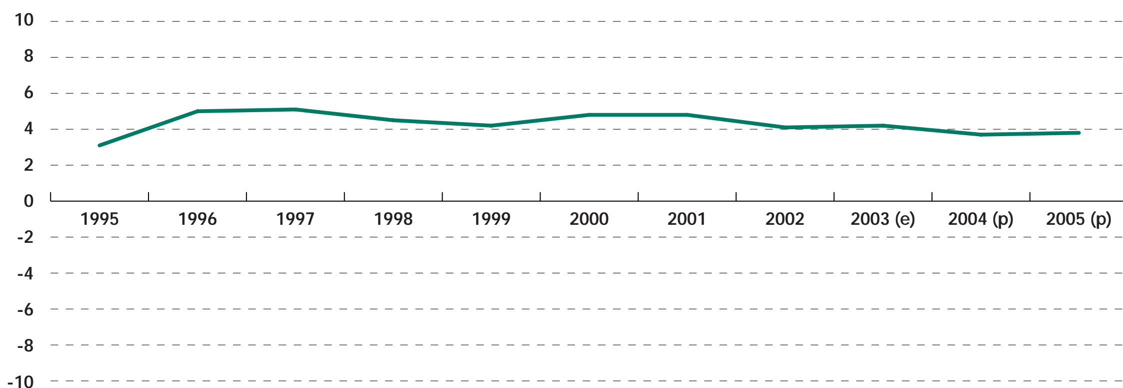
DESPITE THE SURGE OF THE ECONOMY since 1995, the effects of a decade of recession (1985-94) are still very much in evidence in Cameroon. Investment in productive sectors has steadily dropped and has not been absorbed well. Poverty has spread to towns from the countryside and water, electricity and telecommunications services have begun to deteriorate. Administrative skills are also in decline and bad governance is growing. Economic growth has slowed since 2002 because of outdated production facilities and substantial energy shortages which have affected industry. Cameroon has a serious lack of equipment and infrastructure, as well as a high cost of factors of production (labour, land, water and electricity).

Growth remained almost unchanged in 2003 at 4.2 per cent (compared to 4.1 per cent for 2002). Industrial production improved with more reliable electricity supply, and demand remained high despite overall declining terms of trade (that had stabilised in 2002). Foreign trade may weaken in 2004 with a listless world economy and sub-regional markets slow to take up the slack. From April 2004, a new thermal plant at Limbé should improve the electricity supply for local businesses. Prospects are highly dependent on the government's ability to develop priority sectors, including production infrastructure. The economy cannot rely much on domestic consumption as the only spur to growth as it is likely to fade with declining oil production and a fall in manufacturing jobs. Growth will slow to 3.7 per cent in 2004 and 3.8 per cent in 2005.

**Growth is still hampered by a lack of infrastructure and a substantial energy gap.**



Figure 1 - **Real GDP Growth**




**Source:** IMF and *Direction de la Prévision*, Ministry of Economy and Finance data; projections based on authors' calculations.

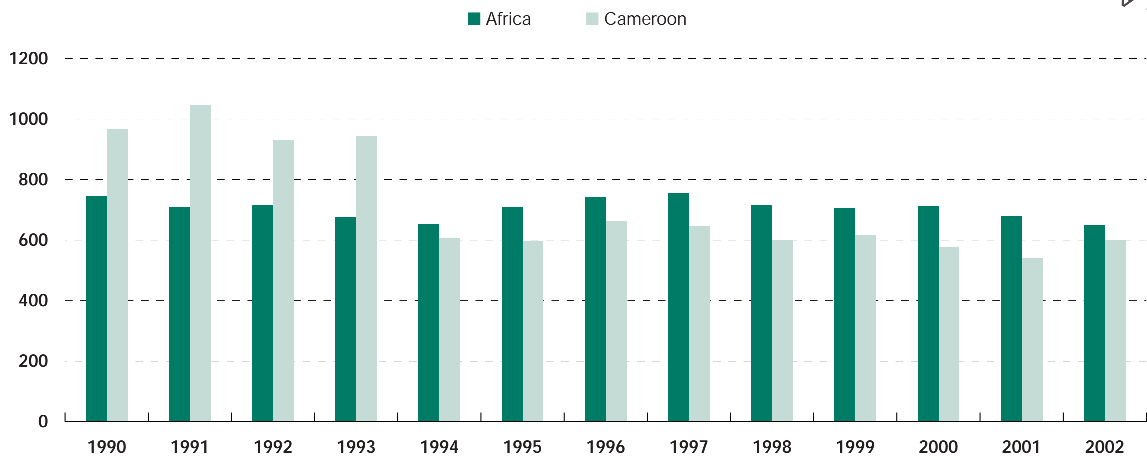
## Recent Economic Developments

After a crisis, the primary sector once again underpinned economic growth in 2003 thanks to better food and export-crop production and a slight improvement in forestry activity. Production of the main cash crops (cocoa, bananas and rubber) rose during the 2003/04 season, with exports of cocoa up by two-thirds in the first nine months of 2003 and bananas by 21.5 per cent. But exports of coffee experienced a dormant year in 2003, with arabica falling by 64.5 per cent and robusta by 58.1 per cent. Cotton production was also down 5 per cent in the first nine months. The volume of exported logs fell 8 per cent in 2002 and an estimated 54 per cent in the first half of 2003 as a result of new forestry regulations.

© AfDB/OECD 2004 

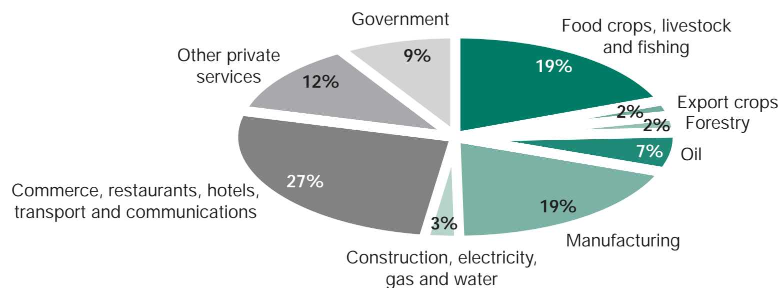
OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

Figure 3 - **GDP by Sector in 2002**




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

Considering the country's rich resources, agriculture operated well below capacity.

In 2003, despite steady depletion of reserves, petroleum output was maintained at just over 35 million barrels, virtually all exported. Three-quarters of it was sold through the state oil company, SNH, at an average price of $26.5 a barrel.

In 2002 frequent power cuts hampered industrial activity, notably the development plans of Alucam, the main customer of Cameroon's only electricity company, AES Sonel. But supply gradually returned to normal in the first half of 2003, with better rainfall and buoyant local demand. Manufacturing activity picked up slightly. AES Sonel's capacity will be boosted when a thermal plant at Limbé comes into operation in April 2004, and the firm predicts demand will be met fully in 2004. The sector will be opened up to other suppliers in 2006. The country is still using only 2 per cent of its hydro-electrical potential, which is the biggest in Africa after the Democratic Republic of Congo. Negligible investment for more than 20 years has left dams in poor condition and unable to meet demand, which has been rising by about 5 per cent a year since 1995.

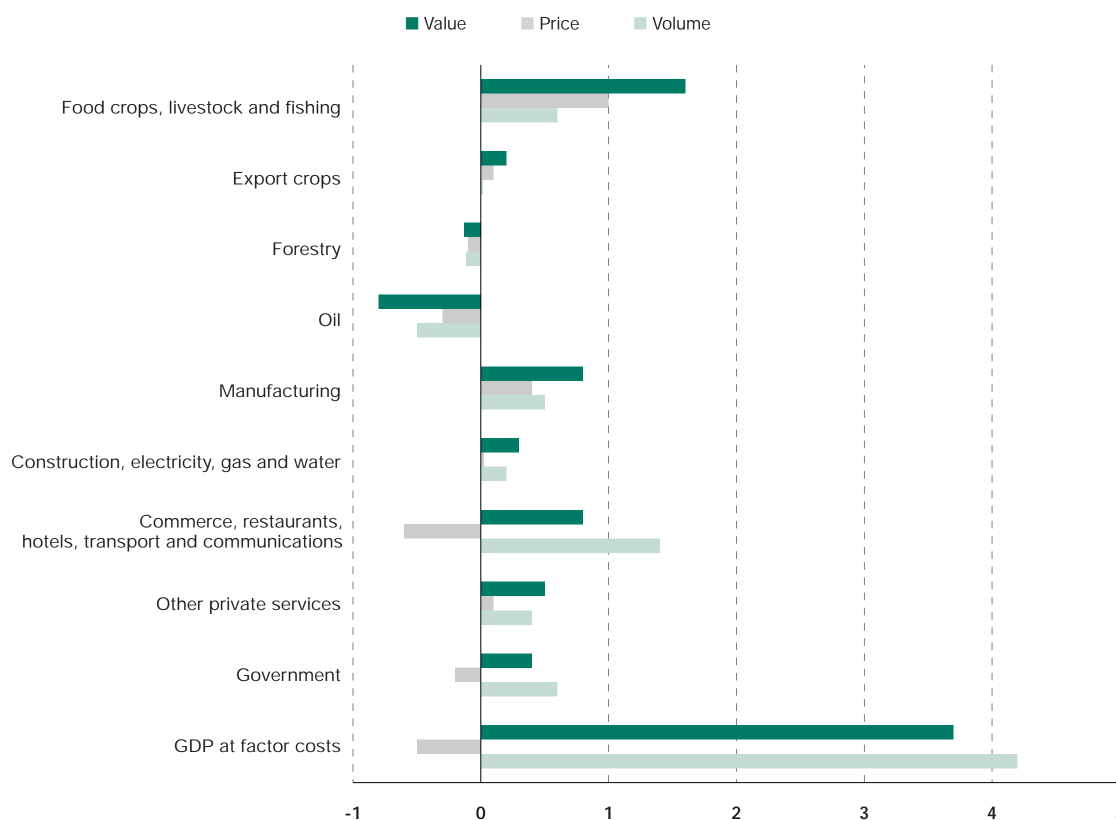
The construction industry helped overall growth in 2003 with the firm NBC Holding beginning construction of 10 000 cheap housing units in Yaounde and Douala, (mainly with Tunisian funding) and with several projects in place for the road network. The sector remains very dynamic, as shown by a 13 per cent jump in local demand for cement. Cement imports were up with a weak dollar lowering prices and local firms unable to increase output quickly. The sector's contribution was less than in 2002,



 © AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only


Figure 4 - **Sectoral Contribution to GDP Growth in 2002**




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

however, the Chad-Cameroon oil pipeline having been completed. Industrial activity has suffered from a steady fall in manufacturing jobs – 3.7 per cent over the year. In addition, the forestry sector has experienced new supply problems because of declining production since 2002.

The service sector is still the mainstay of the economy after the recovery of sea and land transport due to road improvements and an 11 per cent increase in rail passengers in the first half of 2003. Container traffic at Douala port rose year-on-year in the first ten months of 2003, with volume imports up 0.2 per cent and

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **12.8** | **18.9** | **23.5** | **24.0** | **22.8** | **23.5** | **23.6** |
| Public | 1.9 | 3.2 | 3.3 | 2.5 | 2.5 | 3.2 | 3.4 |
| Private | 10.9 | 15.7 | 20.3 | 21.5 | 20.3 | 20.2 | 20.2 |
| **Consumption** | **80.8** | **75.8** | **80.2** | **81.2** | **81.2** | **81.0** | **81.1** |
| Public | 8.8 | 9.7 | 10.3 | 10.6 | 10.5 | 10.4 | 10.4 |
| Private | 72.1 | 66.1 | 69.9 | 70.6 | 70.7 | 70.6 | 70.7 |
| **External sector** | **6.4** | **5.3** | **-3.7** | **-5.2** | **-4.0** | **-4.5** | **-4.7** |
| Exports | 25.8 | 28.1 | 24.0 | 21.3 | 19.6 | 19.0 | 18.6 |
| Imports | -19.4 | -22.8 | -27.7 | -26.5 | -23.6 | -23.5 | -23.2 |

**Source:** *Agence française de développement* data; projections based on authors' calculations.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

exports up 1.9 per cent. The completion of the Chad-Cameroon pipeline and related activity, however, led to a fall in the volume of traffic by traditional means of transport. Fuel distribution (by the firm SCDP) increased significantly (17.1 per cent) in the first ten months of the year. Tourism also grew, with a 10 per cent rise in night-stopovers over 2003 and 6 per cent higher turnover in the first half of the year. Given the many natural sites of Cameroon, a significant improvement of infrastructure would benefit the sector greatly.

In 2003, internal and external demand contributed to growth more equally. The contribution of exports rose by default when completion of the oil pipeline led to a drop in imports. Nevertheless, while domestic demand remained healthy due to higher rural incomes, investment (particularly private investment) continued to drop. The government was unable to complete budgeted projects and the small level of non-petroleum private sector investment declined further. Investment remained well below requirements and GDP growth moved away from the 6 per cent PRSP target for 2007. The situation was not helped by the serious lag in implementation of the public investment budget (either with national or HIPC funds) due to low absorption capacity and declining bureaucratic efficiency.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

As a member of the Central African Economic and Monetary Community (CEMAC), Cameroon is obliged to meet certain convergence criteria touching inflation, budget balance, debt levels, and the absence of payment arrears. In 2003, as in the previous year, Cameroon was the only member to meet all the criteria, and its debt has been reduced significantly since it entered the HIPC Initiative.

The Poverty Reduction and Growth Facility (PRGF) finalised with the IMF in October 2000 is now coming to an end. Negotiations for the fourth PRGF review, initially scheduled for January 2003, were postponed as budgetary excesses prevented the achievement of the programme's quantitative targets early in the year. The review was not approved until 17 December 2003, only a week before the PRGF expired, releasing 15.9 million SDRs ($23 million). The third and final year of the programme was to run from 1 July 2003 to 30 June 2004, so the last review ought to be discussed in the third quarter of 2004 using end-June criteria.

In 2003, budget policy aimed to continue stabilising public finances by broadening the non-petroleum revenue base. Also more careful budgetary choices were intended to make spending more efficient. Reforms continued with the introduction of new budgetary nomenclature for better monitoring of expenditure by heading. Also, the completion of an integrated data system (SIGEFI) for public finance management (also with a revenue section) should make all public spending more transparent, reliable and coherent.

Individual and corporate income tax systems will be reformed in 2004 and a large-companies division (of the tax authorities) should be operational, improving tax collection. In March 2003, parliament established a supreme court accounts division to monitor government finances more closely. The system for awarding government contracts has also been reformed. Other measures to meet budget targets included requiring state-owned firms to withhold VAT at source, abolishing or limiting some tax exemptions, including that on the special levy on petroleum products, and tightening the system of mining taxation.

Government revenue was lower in the first months of 2003 than in the equivalent period of 2002. While favourable world prices pushed oil income up from 86 to 92.2 billion CFA francs ($123.4 to $157.3 million) over the period, sluggish non-oil sectors accounted for the overall decline. VAT revenue improved in the second half of the year as the economy picked up. Over 2003, revenue should exceed targets to reach 17.1 per cent of GDP (with an estimated 101.6 per cent execution rate).

The government had budget problems in the second half of the year. These led to its first shortfall (43 billion





© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[b] | **12.5** | **17.8** | **18.0** | **17.5** | **17.1** | **16.8** | **16.3** |
| Tax revenue | 8.6 | 11.0 | 12.1 | 11.8 | 11.6 | 11.6 | 11.7 |
| Oil revenue | 2.8 | 5.7 | 4.7 | 4.8 | 4.0 | 3.9 | 3.5 |
| **Total expenditure and net lending**[b] | **15.3** | **15.9** | **16.6** | **16.0** | **15.2** | **15.4** | **15.2** |
| Current expenditure | 13.9 | 13.0 | 13.4 | 13.4 | 12.9 | 12.4 | 12.0 |
| *Excluding interest* | *8.2* | *9.4* | *10.2* | *10.8* | *10.7* | *10.5* | *10.5* |
| Wages and salaries | 4.5 | 4.6 | 4.9 | 5.3 | 5.4 | 5.4 | 5.6 |
| Interest | 5.7 | 3.7 | 3.2 | 2.6 | 2.2 | 1.8 | 1.6 |
| Capital expenditure | 1.4 | 2.7 | 3.0 | 2.3 | 2.3 | 3.0 | 3.2 |
| **Primary balance** | **2.9** | **5.5** | **4.5** | **4.1** | **4.0** | **3.2** | **2.6** |
| **Overall balance** | **-2.8** | **1.9** | **1.4** | **1.5** | **1.9** | **1.4** | **1.1** |

a. From January 2003, the financial year follows the calendar year.
b. Only major items are reported.
**Source:** IMF and *Direction de la Prévision*, Ministry of Economy and Finance data; projections based on authors' calculations.

CFA francs – $72.1 million – by September) in contributions to the HIPC account with the Bank of Central African States (BEAC) as part of its debt relief arrangement with creditors. These difficulties also led to increased efforts to collect taxes and government payments to private sector firms were delayed.

Budget expenditure rose in the first half of 2003 year-on-year, though it was slightly less than projected (with a 96.7 per cent execution rate), because of transfers and capital spending despite low absorption capacity. The overall balance strengthened due to lower current expenditure and debt service payments and is estimated at over 1.9 per cent of GDP, up 26 per cent from 2002.

The 2004 budget, passed and implemented in December 2003, balances revenue and expenditure of 1 617 billion CFA francs ($2.7 billion). Up by 7.2 per cent from 2003, it is based on optimistic forecasts of real GDP growth of 4.7 per cent, 2 per cent inflation and a balance (commitments not disbursements) of 1.5 per cent of GDP. Operating costs, transfers and salaries account for more than half of expenditure, while less than a third goes to debt repayments and only about 15 per cent to investments.

Tax revenue for 2004 was set at 1 148 billion CFA francs ($1.9 billion, 10 per cent up on 2003) based mostly on VAT and import tariffs. Non-tax revenue was stagnant with privatisation stalled and a decline in oil production. HIPC spending was projected to rise by 75 per cent to 70 billion CFA francs ($119.5 million) but was not enough to make up for accumulated delays since reaching decision point.

Operating expenditure remained steady (up 0.9 per cent) but, contrary to commitments, did not reflect the emphasis on social sectors set out in the PRSP. The biggest increases were for defence (+6.6 per cent), economy and finance (+5.2 per cent), the presidency (+5.6 per cent), and for the interior and local government ministry (+35.3 per cent), which received substantial funding for HIPC projects.

Though the budget should have focused clearly on fighting poverty, education spending (except for technical and higher education) increased by only 4.1 per cent, while health spending declined by 1.9 per cent. Other sectors in great need of funds saw their allocations cut sharply: mining, water and energy by 34.7 per cent and transport by 17.4 per cent. Though rural development is another priority sector, funding for agriculture was down 0.3 per cent and livestock by 11.3 per cent. If confirmed, these trends would reduce the PRSP to a document unrelated to real budgetary operations. The breathing space provided by the start of debt relief is not being used as intended – to fight poverty – despite medium-term guidelines for education and health spelled out in the PRSP.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

Several factors could produce further revenue problems in 2004, which is also when presidential elections are due. About 90 per cent of credits from HIPC funds in the new budget has not yet been spent and has been rolled over, which leaves little room for new projects. Also, newly-calculated internal debt figures that have been included have probably been underestimated due to downsizing of state-owned firms and delays in the privatisation programme.

Domestic debt stood at 1.1 billion CFA francs ($1.5 million) at the end of 2002, accounting for 15.7 per cent of GDP, of which 2.3 per cent is overdue. This, as with external debt, was accumulated before the crisis of the early 1990s. About 54 per cent of domestic debt held by commercial banks, insurance companies and government employees has been consolidated with medium-term repayment plans. It should be cleared by 2006.

As in other CEMAC countries, the exchange rate is pegged to the euro and monetary policy is managed by the BEAC, leaving budgetary policy as the main economic instrument. After strong pressure in the first half of 2002, due to overheated demand in connection with the Chad-Cameroon pipeline, inflation steadied in the second half of the year and in 2003, reflecting greater food supplies. Prices also fell in conjunction with cheaper dollar imports due to the fall in the dollar. Inflation should be 1.4 per cent in 2003 if food supplies remain stable. It ought to rise to 2.2 per cent in 2004 and 2.1 per cent in 2005 because of higher demand for food in neighbouring countries.



## External Position

Foreign trade items are quite varied – crude oil (45.7 per cent), sawn timber (11 per cent), cocoa beans (10.6 per cent), raw cotton (5.2 per cent), raw aluminium (3.6 per cent) and fuel and lubricants (3.4 per cent) – but further diversification is difficult. Cameroon trades mostly with Europe and the United States, but in the second quarter of 2003 new customers, such as China and South Africa, emerged. In a single quarter, exports by value to these countries were almost as high as those to the United States. Imports from Nigeria continued to increase, up 25 per cent in the second quarter year-on-year. Local producers face growing competition from Nigerian products, cheaper due both to the naira's depreciation against the dollar and to smuggling. Cameroon has great potential and a bigger economy than its neighbours, but has still not captured the sub-regional CEMAC market.

Year-on-year exports to CEMAC countries dropped substantially in the first half of 2003 (down 14.6 per cent according to the Cameroon employers' federation, Gicam). The slight trade surplus registered in 2002 (0.7 per cent) improved somewhat in 2003 (to 1.0 per cent), with a fall in imports due to the completion of the Chad-Cameroon pipeline and better global terms of trade. But the surplus should not mask a continuing decline in oil exports by tonnage and a rise in imports of tradable goods sparked by the weakness of the dollar. In the longer term, if local producers fail to meet the still-strong domestic demand, substantial imports could cause a trade imbalance.

Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | 7.3 | 2.6 | 2.6 | 0.7 | 1.0 | 0.7 | 0.5 |
| Exports of goods (f.o.b.) | 20.5 | 21.2 | 20.9 | 18.0 | 16.5 | 16.1 | 15.7 |
| Imports of goods (f.o.b.) | -13.3 | -18.6 | -18.3 | -17.3 | -15.4 | -15.4 | -15.2 |
| Services | -2.3 | -6.4 | -5.4 | -5.9 | | | |
| Factor income | -6.6 | -3.3 | -2.8 | -2.3 | | | |
| Current transfers | 0.7 | 1.1 | 1.3 | 1.2 | | | |
| **Current account balance** | **-0.9** | **-5.9** | **-4.4** | **-6.3** | | | |

**Source:** IMF and *Agence Française de Développement* data; projections based on authors' calculations.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

Cameroon became eligible for enhanced HIPC Initiative funding when eligibility conditions were eased. After a successful first phase of stabilisation, the country reached decision point on 11 October 2000 and entered the interim stage of the programme, which enabled it to receive its first debt relief. The completion point, initially set for September 2003 was delayed by the late finalisation of the PRSP and the Poverty Reduction and Growth Facility (PRGF) report and should now take place at the end of 2004. In mid-October 2003, Cameroon received nearly 200 billion CFA francs of such credits, of which only 14 billion have been spent. This under-use of HIPC funds is worrying when reaching completion point depends on effective implementation of the PRSP over a year.

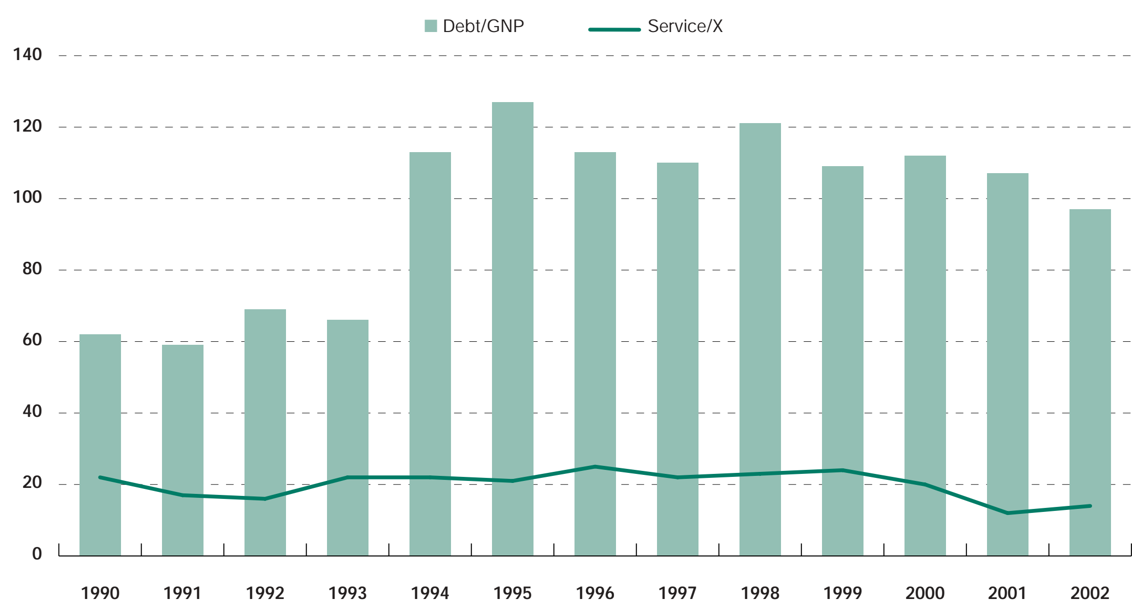
Explanations range from over-cautious policies to a chronic inability to absorb investment, as shown by the very poor execution of the investment budget for the past two decades. This slowness to use HIPC funding may also be due to lack of good-quality projects (those presented resemble ideas more than serious development proposals), incompetent technical ministries or institutional blocks made worse by bureaucratic inefficiency. This includes several committees having to approve a project, a decision which then stays at ministerial level and is not passed on properly to finance ministry officials. The earmarking of funding in the budget occurs late and with difficulty and fails to circulate through the appropriate ministries.

The HIPC monitoring committee (which includes Cameroonian officials, funding agencies and civil society representatives), presided over by the Finance Minister and set up on 1 December 2000, has not yet found its feet. A new monitoring committee for the implementation of HIPC projects has now been created by the Ministry of Economic Affairs, Planning and Development, to be subject to the Minister for the Economic Revival Plan. This committee has met twice. It remains to be seen if HIPC funds will be better used as a result.

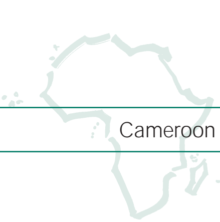
Cameroon will also have access to the additional part of the HIPC Initiative. This involves the decision, taken by most G7 countries at the 1999 Cologne Summit, to unconditionally cancel all bilateral public development aid debt remaining after completion point (in addition to standard debt relief). Given its large outstanding debts of this kind, this represents a



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




**Source:** World Bank.





OECD Browse_it Edition • Lecture seule • Read Only

substantial sum for Cameroon. France, which is replacing debts with development grants, will do so through a debt-relief and development (C2D) contract of more than 1 billion euros over more than 20 years.

Cameroon has substantially reduced its debt: public external debt has decreased by 23.5 per cent, from 126.7 per cent of GNP after devaluation in 1995, to 96.9 per cent in 2002. The reduction of export-debt servicing was even greater: falling by 33.9 per cent from 20.9 to 13.8 per cent during the same period. This is thanks to sustained growth since the 1994 devaluation and increased exports, as well as falling external debt ($8 503 million in 2002). In addition to the HIPC debt reduction measures, the country has made substantial efforts to repay foreign creditors with its implementation of IMF programmes.

In May 2002, Cameroon negotiated a very favourable buy-back of 584 billion CFA francs ($838.3 million) of its commercial debt at 14.5 per cent interest on the principal with a waiver of interest arrears. The operation, costing a total $44 million, took place in August 2003 with contributions from France, Norway and the World Bank (which co-ordinated it). Cameroon contributed some its own resources and 54 out of 76 banks involved agreed to help.

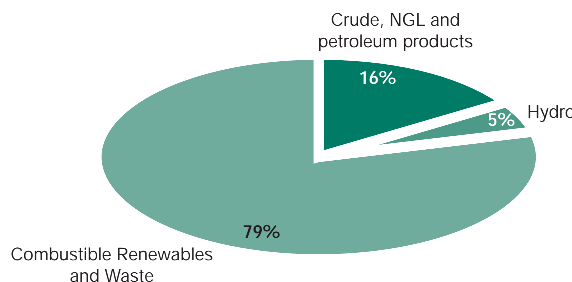
## Structural Issues

Cameroon faces persistent structural problems including: out-of-date and inadequate infrastructure (transport, telecommunications, health and education), bad governance (inefficient courts and a non-independent private sector) and corruption that harms the country's image and puts off potential investors. The action plan drawn up after a review of the justice system will be crucial to restoring local and foreign investor confidence.

Energy supply remains very traditional despite Cameroon being one of the sub-region's most diversified economies with a sizeable business sector. Biomass is the main fuel and hydro-electric power production is well below capacity. Electricity production is inadequate because of outdated equipment and is aggravated by poor rainfall, especially in 2002. Distribution is also inefficient, with 32 per cent of current lost. Electricity is mainly hydro-produced but thermal production has risen sharply since 2002 – by 27 per cent that year and 32 per cent in 2003 (up to the end of November) – in response to demand. The private company AES Sonel has a monopoly over production and distribution.

A regulatory body has been set up for the electricity sector to ensure that the contract between the government and AES Sonel is performed with respect to prices and investment. Three rate increases were allowed under the contract and all were delayed because of negotiations between the government, the company and the regulatory body. As the contract concerns average price increases, the biggest rise was imposed on business customers, with the government wanting to protect private consumers. AES Sonel introduced a much higher fixed charge for low-voltage non-household current at the end of 2003 and changed the composition of rental payments to a choice of either adjusting voltage according to needs or using current more economically.

Figure 6 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.



 © AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



The company had noticed that the level of current being signed up for (which influences the fixed charge) corresponded neither to the level of consumption nor the needs of business customers. Despite the price rises, investments required under the contract have not been made fully, leaving AES Sonel open to penalties.

The government has no real plan to develop the energy sector, even though strengthening basic infrastructure, especially electricity output, is a PRSP priority. Electricity supply does not meet demand and there were many power cuts in 2002, though this has historically occurred during periods of drought. This seriously hampers industrial activity, new investment projects and the growth of large firms.

AES-Sonel is set to open a 45 billion CFA francs ($76.8 million) 80 MW oil-fired plant at Limbé in April 2004 and intends to upgrade delivery networks to improve distribution. In the longer term, a 150 MW independent gas-fired plant will be built, and construction of a dam at Lom Pangar will commence when environmental impact studies co-ordinated by the World Bank have been completed. The dam will be funded by the French Development Agency and the Cameroon government and will boost capacity by 170 MW.

On the privatisation front, the Tunisian company Sotrafer was chosen in April 2003 to rehabilitate the national railway, Camrail, in partnership with the Cameroonian firm Sitrafer, which is already working with Camrail in maintaining the track. Privatisation of the Cameroon Development Corporation (CDC) continued, with the 65 per cent sale of its tea division on 18 October 2002 to Cameroon Tea Estate, a special joint venture between the South African firm Brobon Finex and former Cameroonian agriculture minister, Niba Ngu. Efforts to privatise other divisions have not been very successful.

The situation of Camtel (fixed-line phones) and Sodecoton (cotton) had not changed much by September 2003. The privatisation of Camtel should restart in June 2004 after a new business plan has been drawn up and implemented. The Supreme Court has now decided how to divide Sodecoton, identifying those parts to remain in state hands. A call for expressions of interest was made for consultants, without indicating the form of privatisation. It will not take place before the start of 2005. In the troubled privatisation of the water company SNEC, negotiations with Ondéo Services failed and the bid was dismissed by the finance ministry on 12 September. The government and its development partners are drafting a new privatisation plan for the company, probably in the form of a leasing arrangement.

Cameroon attracts few foreign investors and not many local companies have the resources to tender for these state firms. Camair, with a new general manager, has resumed activities and its flights were running on time at the end of 2003. The airline must now be restructured before any new privatisation. Privatisation of Douala port moved forward in November with the ten-year franchising of tug and mooring operations to the French firm Les Abeilles, which beat its local competitor.

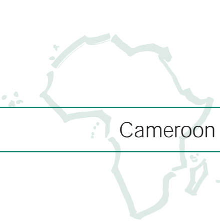
Prospects depend on rapid and substantial investment to restore cheap but good-quality infrastructure for production. The civil service also needs to be reinvigorated and urgently downsized to boost efficiency. The sub-regional market also presents an opportunity for Cameroon as a traditionally key supplier, due to the expected economic boom in Chad, strong growth in Equatorial Guinea, stabilisation in the Central African Republic and continued expansion in Nigeria. The potential and capacity of all firms, large and small, is such that when the main bottlenecks are eased, supply will immediately increase.

## Political and Social Context

A technical review of the legal system has been carried out and an action plan to implement recommendations was adopted in December 2003. Cameroon's position on Transparency International's Corruption Perceptions Index continued to improve in 2003: after having been considered the most corrupt country in 1998 and 1999, it was placed 89th out of 102 countries in 2003. Efforts to stamp out corruption are needed if foreign investors are to be drawn to the country.



© AfDB/OECD 2004





OECD Browse_it Edition • Lecture seule • Read Only

Presidential elections are due before President Paul Biya's term expires in October 2004, but no official date has been set. These are expected to see the president's re-election to the post he has held for nearly 22 years. As hand-picked successor to President Ahmadou Ahidjo, he was elected first in November 1982 and then in the four following elections. In the last, on 12 October 1997, Biya won 90 per cent of the vote though the main opposition parties boycotted the poll over the lack of an independent electoral commission. Since 2002, a national elections watchdog has been created and a united opposition front is now being formed for the coming elections.

A lengthy territorial dispute with Nigeria over the Gulf of Guinea's 1 000 square kilometre Bakassi Peninsula, which has rich fishing grounds and oil resources, is being settled following a 10 October 2002 ruling in Cameroon's favour by the International Court of Justice. Both sides seem to be working on a peaceful solution with the help of the United Nations. However, three meetings sponsored by UN Secretary-General Kofi Annan to persuade them to implement the court's ruling have not enjoyed full success and the peninsula is still occupied by thousands of troops from both countries. The tricky matter of their maritime boundary, which could have a serious effect on Cameroon's oil production, has not yet been tackled.



After some delay, a Poverty Reduction Strategy Paper (PRSP) was finalised in April 2003 and submitted to the Bretton Woods institutions which approved it as a good base for continuing the HIPC Initiative. It has seven main themes reflecting Cameroon's desire to foster growth by encouraging private investment and diversifying the economy, speeding up regional integration through CEMAC and boosting human, institutional and administrative resources and good governance. The parliament's delay in approving the paper can be explained partly by its healthy discussions on the subject.

Using the ECAM I and II surveys, the national statistics institute found that poverty declined from 53 to 40 per cent of the population between 1996 and 2001, mostly due to the return of economic growth. Improvement was greater in towns and cities (mainly Yaoundé and Douala) than in rural areas. Household standards of living, especially access to education and health care, have improved but this trend has concealed a widening gap between poor and non-poor and urban and rural households. Redistribution has reduced poverty very little, especially in the countryside.

Inequality is marked – in 2001 the richest 20 per cent of the population spent over eight times more than the poorest 20 (compared with 7.6 times more in 1996). The Gini coefficient did not change much between 1996 and 2001. However, these results must be treated very cautiously because measuring poverty is difficult and depends on its definition. The effects of nearly a decade of recession starting in the 1980s, when poverty was mainly rural and virtually unknown in towns, are still considerable. Poverty today is especially visible in problems of access to basic infrastructure, social services and political participation.

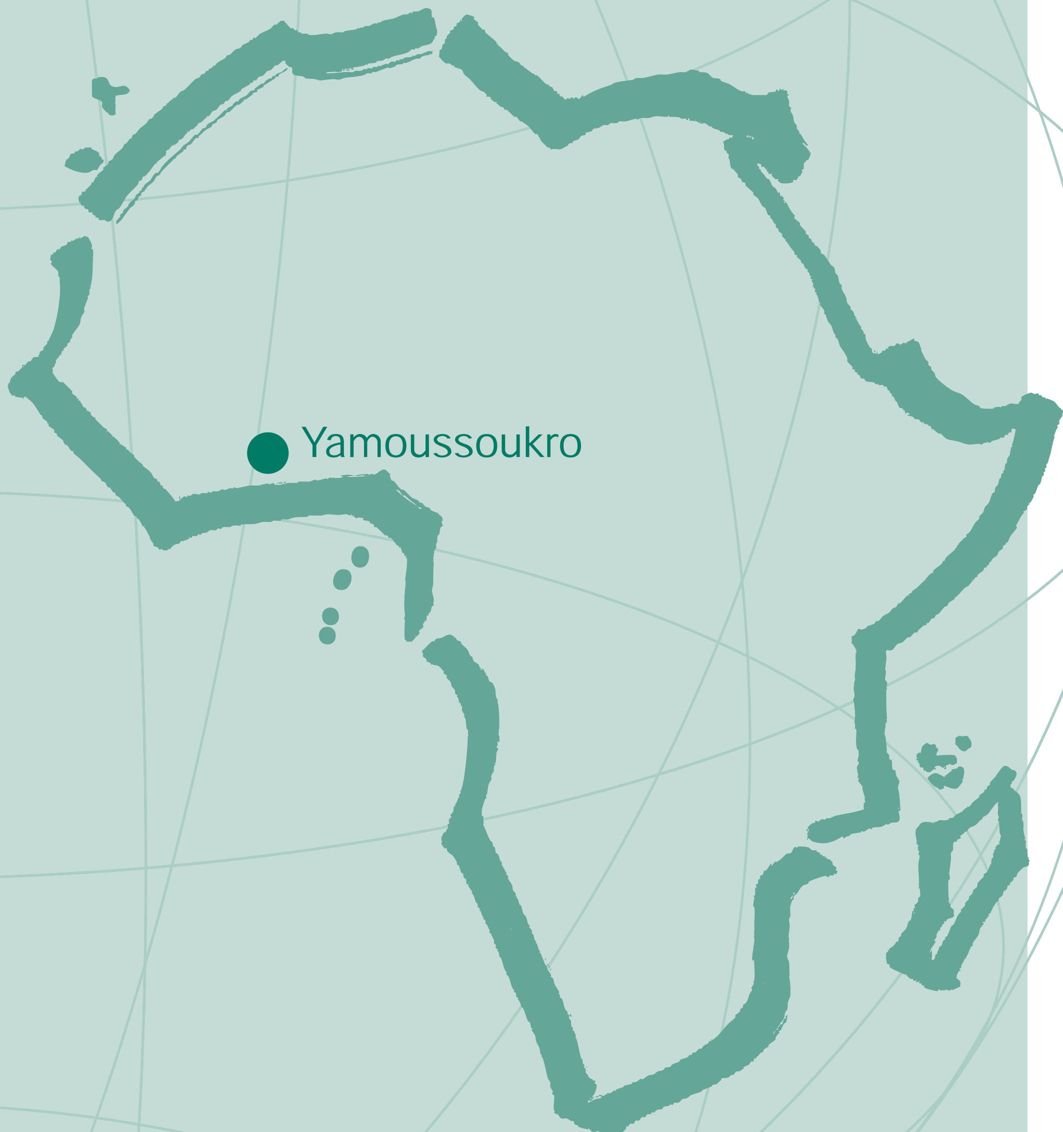
Health indicators declined between 1991 and 1998, with increasing infant mortality (from 65 to 77 per thousand) and malnutrition (from 32 to 44 per cent). Maternal mortality was stable at 430 per 100 000 births. The rate of child DPT vaccination rose to 70 per cent and half of all pregnant women now use treated mosquito nets thanks to a big anti-malaria campaign. Progress has also been made in fighting HIV/AIDS, a nationwide action plan having been adopted in 2003 and run by the national anti-HIV/AIDS committee. The number of people receiving anti-retroviral drugs rose from 500 in the year 2000 to 5 000 in 2002 and should total 9 000 at the end of 2003. The HIV/AIDS infection rate was 12.2 per cent in 2001, well above the 7 per cent African average.

Some education indicators improved between 1996 and 2001. Enrolment grew from 76.3 to 78.8 per cent and literacy from 61.5 to 67.9 per cent. But educational quality declined and dropout rates remained high. Some 2 500 classrooms were built by the end of September 2003 under the education plan (with funding contributions from Japan and the African Development Bank). Management of teachers was decentralised and their status revised.



© AfDB/OECD 2004

# Côte d'Ivoire




**key figures**

| | |
|---|---|
| • Land area, thousands of $km^2$ | 322 |
| • Population, thousands (2002) | 16 365 |
| • GDP per capita, $ (2002) | 715 |
| • Life expectancy (2000-2005) | 41.0 |
| • Illiteracy rate (2002) | 49.4 |

An OECD Browse_it Edition • Read Only • Lecture seule

# Côte d'Ivoire

THE POLITICAL, ECONOMIC AND SOCIAL crisis resulting from the attempted coup of 19 September 2002 is still causing macroeconomic damage. Côte d'Ivoire is the motor of the West African Economic and Monetary Union (UEMOA) accounting for 40 per cent of its wealth, and in 2003 the country had negative growth (2.3 per cent) for the second year running.

Hopes of moving forward again rested on crude oil and cocoa, whose volume exports increased 67.9 and 15.3 per cent respectively during the year. Despite the ongoing civil war, businesses and producers maintained operations in both the north and south of the country, helping to contain the negative effects of the conflict. However, uncertainty and lawlessness weakened the prospect of growth resuming.

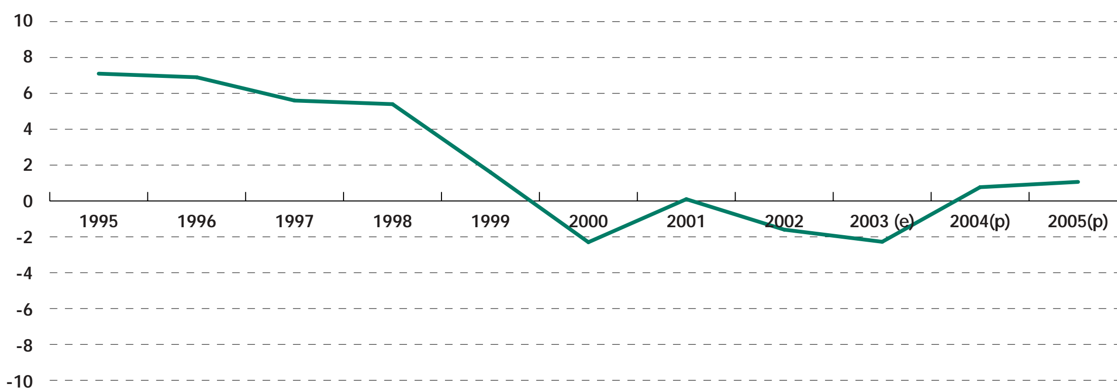
If the political situation normalises in 2004 and the government's reconstruction efforts bear fruit, economic growth should return and the year could be characterised by peace, economic recovery, general public relief and resumption of infrastructure projects and external funding.

The political, economic and social crisis continues to cause macroeconomic damage.

The economic downturn has led to deterioration in the jobs situation, public finances and the capital account in the balance of payments. Implementation of many reforms and investment programmes has been postponed. This is especially unfortunate since in peaceful circumstances, growth prospects would have been good. The humanitarian and social consequences of the war are disastrous and all health, education and



Figure 1 - **Real GDP Growth**




**Source:** Domestic authorities' data; projections based on authors' calculations.

poverty indicators are likely to decline. Nearly all infrastructure in the war zone has been destroyed.

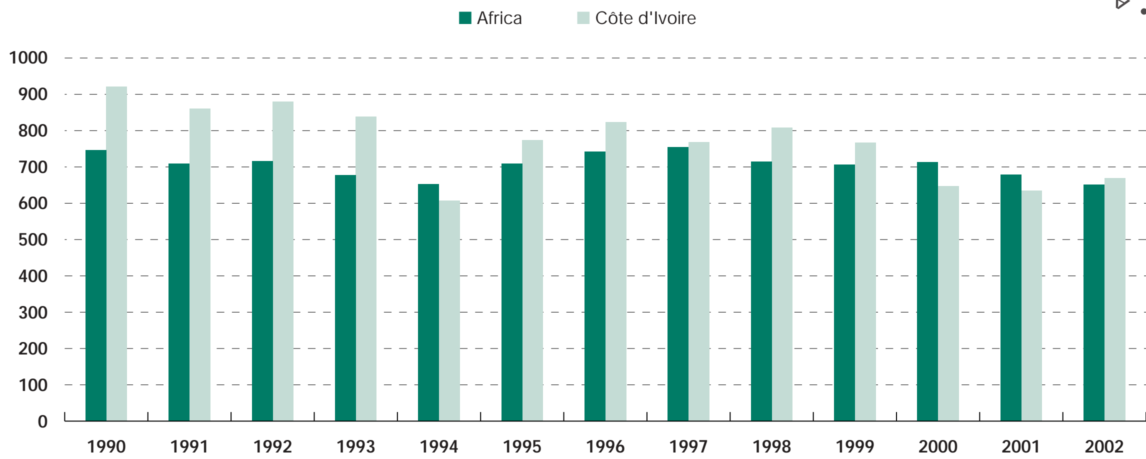
## Recent Economic Developments

With the political crisis continuing, GDP shrank further in 2003, by an estimated 2.3 per cent (-1.6 per cent in 2002). Economic recovery is difficult without signals to restore private sector confidence. New commitment by economic operators to the national reconstruction programme, for which the government has sought external funding, could reverse the trend and see growth of 0.8 per cent in 2004 and 1.1 per cent in 2005.

The Ivorian economy is still focused on agriculture, which employs about 60 per cent of the workforce and provides 27 per cent of GDP and 60 per cent of export

OECD Browse_it Edition • Read Only • Lecture seule

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




Source: IMF.

earnings. Farming is still dominated by the state, which has begun to withdraw with the start of an adjustment programme in 1989 and abolition of the stabilisation fund in 1999.



The country has two large agricultural areas. The forested area in the south includes plantations of mainly export crops such as cocoa, coffee, palm oil, rubber, coconuts, bananas and pineapple and food crops such manioc. The savannah in the north mostly produces food (maize, rice, millet/sorghum and peanuts) but also cotton and sugar. Disruption of farming in the occupied parts of the north and west has now been limited to a few buffer zones.

The primary sector showed increased activity in 2003 thanks to 3 per cent growth in food crops but export items fell 2.3 per cent owing to a 1.3 per cent drop in cocoa production. This is expected to fall further in 2004 as harvesting was difficult in the cocoa-growing area in the west, though the government took steps to protect transport of the crop and also made up for the lack of traditional harvest credits by banks.

More than a third of the population lives off cocoa and coffee farming. Côte d'Ivoire is the world's biggest producer of cocoa (more than 40 per cent of the market) and exports of it are the country's main source of foreign exchange. The price farmers receive has been market-driven since the sector was opened up in August 1999, but since the 2001/02 harvest, new regulatory structures have been put in place. These are the Coffee and Cocoa Regulation Authority and the Coffee and Cocoa Exchange, which guarantees a minimum price for producers.

World cocoa prices rose in 2002, so farmers got fairly good prices for the 2002/03 harvest. However, the guaranteed minimum price was reduced in July 2003 from 625 to 365 CFA francs per kilo. Farmers' earnings depend on world prices, which have fallen since February 2003, but the sector is also hampered by a parafiscal tax on exports equivalent to 10 per cent of the CIF price. The drop in prices in 2003 will not help recovery of production, which has been falling since 2001. The government has banned exports of low-grade cocoa since March 2000 in an effort to keep prices up.

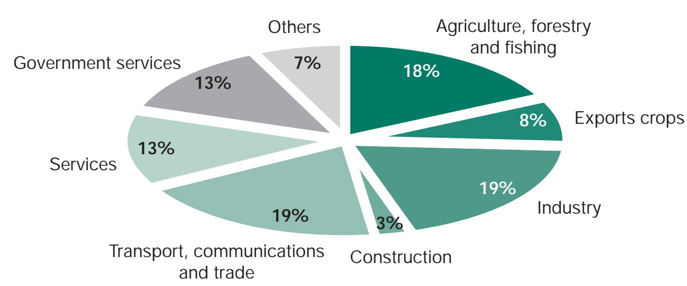
Coffee production fell 39.9 per cent in the first nine months of 2003 year-on-year. The sector is to be reorganised and is hindered by a profusion of management units, unpredictable rules and policies and a high level of taxes.

Côte d'Ivoire is also one of sub-Saharan Africa's main producers of cottonseed. The national crisis has seriously disrupted the local and regional cotton economy because the crop is grown in the conflict-ridden regions of the north. The 2003 harvest had looked very promising

 © AfDB/OECD 2004

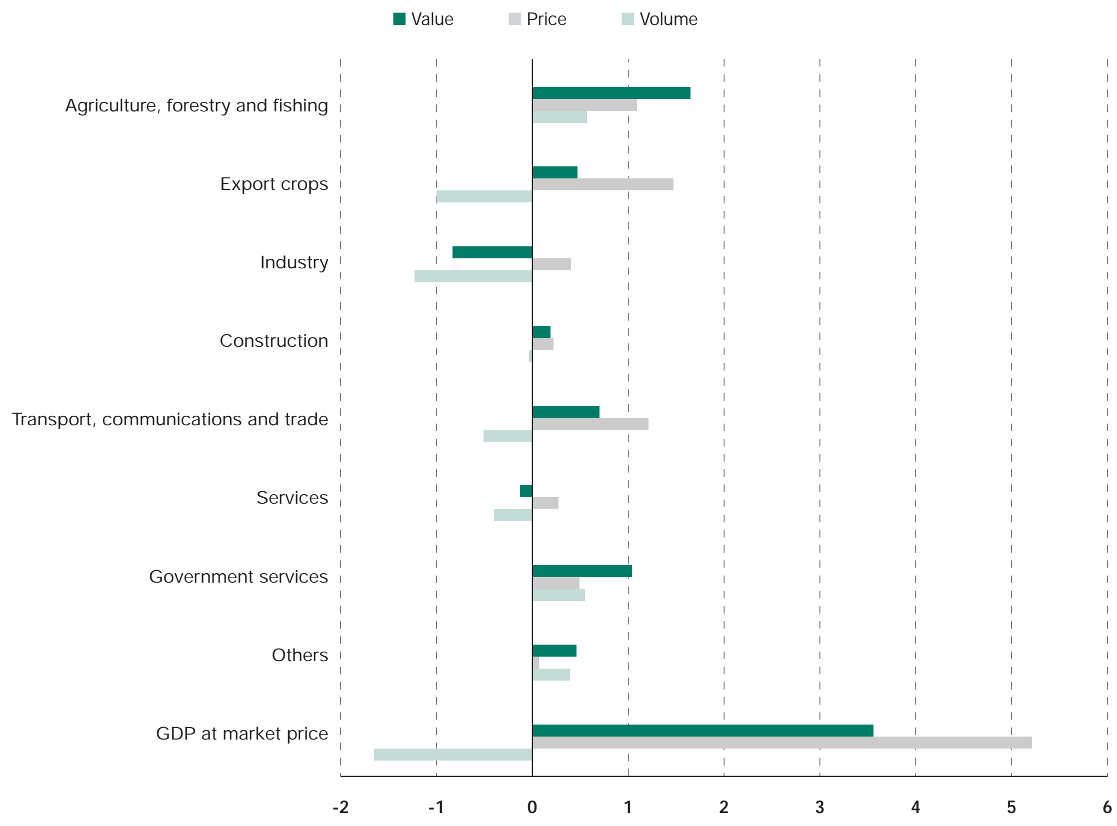
OECD Browse_it Edition • Lecture seule • Read Only

## Figure 3 - GDP by Sector in 2002




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

## Figure 4 - Sectoral Contribution to GDP Growth in 2002




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

in terms of both quantity and quality, but suffered from major problems of getting it to the ginneries and then to ports for shipping. Production thus fell 2.3 per cent in 2003. However, the government managed to negotiate corridors along which the crop could pass. Beyond these problems, there is a shortage of seeds for future harvests.

Production of crude oil and gas rose sharply by 85.7 per cent in 2003 with the opening of new oil fields. Diamonds were smuggled out of the country to neighbouring Guinea and Mali. Gold production was confined to the Aboisso region since the other mines were in the war zone and not operating, cutting total production 62.3 per cent in 2003.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

Nearly all secondary sector components were sharply affected by the crisis and subsequently declined in 2003. Processing of food and raw materials such as coffee, cocoa, wheat, fruit and vegetable oils, fell to 17 per cent of GDP in 2003 from 20 per cent in 2001. Textiles and rubber are also important in the manufacturing sector and the country has a wide range of industry, including plastics, packaging, chemicals, pharmaceuticals, tobacco, timber, construction and building materials.

Food processing declined 13 per cent in 2003 because of loss of parts of internal and external markets. Construction activity fell 11.5 per cent owing to delays in the national reconstruction programme but is expected to rise 3.6 per cent if there is a general recovery in 2004. The entire industrial sector shrank 9.7 per cent in 2003 after a fall of 5.8 per cent in 2002.

The poor business climate and transport problems again damaged the services sector, which fell back

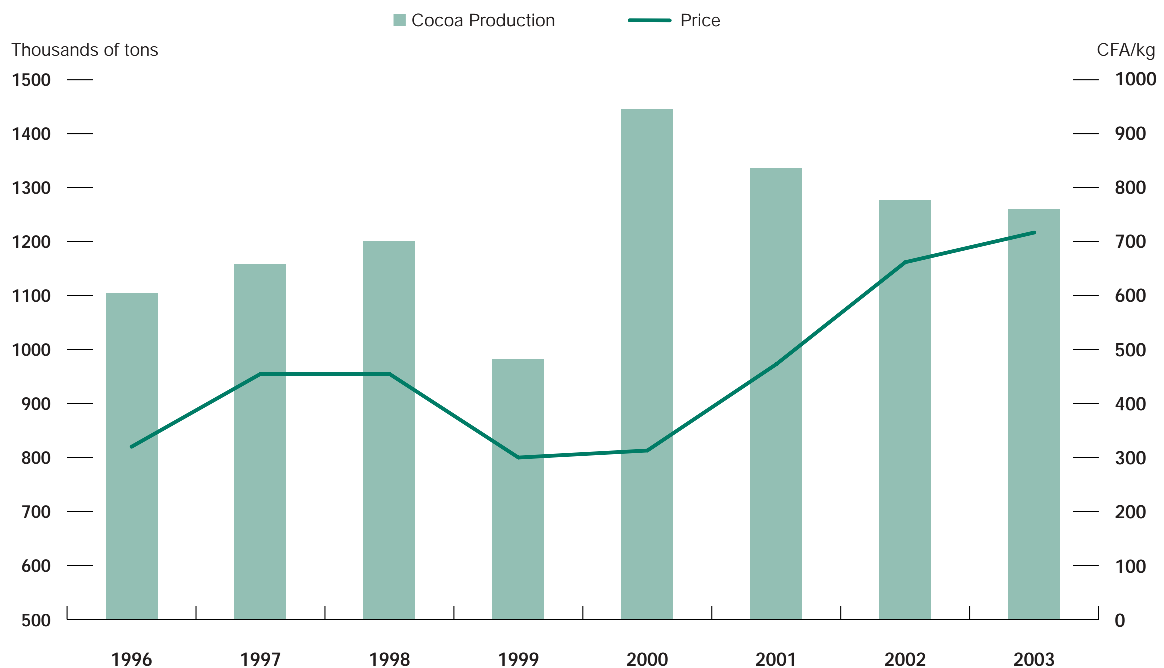
Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **15.0** | **10.5** | **10.9** | **8.9** | **9.1** | **8.7** | **8.9** |
| Public | 4.2 | 2.6 | 1.7 | 2.4 | 2.3 | 2.4 | 2.6 |
| Private | 10.8 | 7.9 | 9.2 | 6.6 | 6.8 | 6.4 | 6.3 |
| **Consumption** | **79.6** | **81.2** | **80.6** | **78.5** | **77.9** | **77.4** | **77.3** |
| Public | 11.9 | 13.7 | 13.7 | 15.6 | 15.2 | 15.1 | 15.6 |
| Private | 67.7 | 67.5 | 66.9 | 62.9 | 62.7 | 62.3 | 61.7 |
| **External sector** | **5.4** | **8.3** | **8.5** | **12.6** | **13.0** | **13.8** | **13.8** |
| Exports | 41.1 | 39.9 | 40.2 | 42.3 | 40.6 | 40.6 | 40.3 |
| Imports | -35.7 | 31.6 | -31.7 | -29.7 | -27.6 | -26.8 | -26.5 |

**Source:** Ministry of Economy and Finance data; projections based on authors' calculations.



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




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


© AfDB/OECD 2004

OECD Browse_it Edition • A Lire Seulement • Read Only

0.6 per cent in 2003 (-1.6 per cent in 2002). Its components were variously affected by the war. While internal trade, transport and sales of new vehicles were badly hit, commerce and telecommunications did not suffer as much. The port of Abidjan, West Africa's main sea outlet, saw a 9.5 per cent drop in the number of ships and a 17.3 per cent global drop in activity in the first nine months of 2003.

The share of consumption in GDP fell to 77.9 per cent in 2003 (from 81.2 per cent in 2000), mainly because of smaller farm income, increasing uncertainty and fewer private-sector jobs. An estimated 1.5 million people were displaced and changed their consumption habits as a result of the uncertainty. Investment also shrank due to the crisis and its weakness endangered future growth. Public investment fell 3.6 per cent in 2003 because of the division of the country, and the private sector was further destabilised by increased delays in payments by the government and reduced credit from banks.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Since the UEMOA convergence, stability, growth and solidarity agreement came into effect in December 1999, Côte d'Ivoire's macroeconomic policy has aimed to comply with the convergence criteria to prepare for economic integration in 2005. However, with the political crisis of the past few years, the country has not made any progress in advancing towards this goal. The country only managed to comply with two of the eight UEMOA convergence criteria in 2003: budgetary balance and current external balance excluding grants.

Public finances continue to show an overall deficit, estimated in 2003 at 1.3 per cent of GDP (1.5 per cent in 2002). Revenue contracted because of sluggish economic activity but expenditure fell by even more. The 2003 budget was under great pressure in the absence of disbursements of external budgetary support.

The 2003 budget (adopted by parliament only in July 2003) was 7.1 per cent smaller than the previous year and totalled 1 478.2 billion CFA francs ($2.5 billion). Revenue was projected as 2.1 per cent lower than 2002 mainly because of tax breaks granted to the private sector. VAT was cut from 20 to 18 per cent on 1 August 2003, automatic deduction of taxes at source was abolished, the deposit required in tax disputes was reduced and material and machinery were no longer under patent.

Direct tax revenue also fell 8 per cent due to poor business results. However, non-tax revenue included 40 billion CFA francs ($68.2 million) from oil and gas – compared with 20 billion ($28.6 million) in 2002 – due to new discoveries, as well as 21 billion CFA francs ($35.8 million) from the sale of mobile phone licences and 10 billion CFA francs ($17 million) from the proceeds of privatisation.

Current expenditure was 921.5 billion CFA francs ($1.5 billion) in 2003, about the same as in 2002. The cost of wages and salaries was a high 61 per cent of the total (37 per cent of all spending). It took account of the need to reinforce the military as well as to increase health and education ministry staff. However, other expenditure fell, as did capital spending. The 2004 budget included a major drive to improve health, education, rural electrification and roads, but funding for the programmes seemed very doubtful since it was optimistically based on 2.4 per cent growth and a large increase in public development aid by foreign funding sources.

Treasury problems meant that only 222.1 billion CFA francs ($379.1 million) was available for debt servicing in 2003, sharply down from 463.3 billion ($664.7 million) in 2002. Of this, interest payments were 217.6 billion CFA francs ($371.4 million) in 2003, as against 265.6 billion CFA francs ($381 million) in 2002.

Internal public debt was estimated at 757.3 billion CFA francs ($1 292 million) in 2003, down from 861.1 billion ($1 235 million) at the end of 2002. The government planned to issue 60 billion CFA francs ($102 million) worth of short-term treasury bonds to raise money in 2004.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[a] | **22.8** | **16.8** | **17.5** | **18.0** | **17.1** | **17.2** | **17.0** |
| Tax revenue | 18.0 | 14.3 | 14.8 | 15.4 | 14.7 | 14.6 | 14.4 |
| Grants | 0.7 | 0.4 | 0.5 | 0.5 | 0.3 | 0.5 | 0.5 |
| **Total expenditure and net lending**[a] | **26.5** | **18.0** | **16.6** | **19.5** | **18.4** | **18.5** | **19.1** |
| Current expenditure | 20.9 | 15.1 | 14.7 | 16.2 | 15.3 | 15.2 | 15.5 |
| *Excluding interest* | *14.0* | *11.2* | *11.4* | *13.0* | *12.6* | *12.5* | *12.9* |
| Wages and salaries | 6.9 | 6.0 | 6.2 | 6.4 | 6.8 | 6.9 | 7.0 |
| Interest | 6.9 | 3.9 | 3.3 | 3.3 | 2.7 | 2.7 | 2.6 |
| Capital expenditure | 5.6 | 2.8 | 1.8 | 3.2 | 3.1 | 3.2 | 3.5 |
| **Primary balance** | **3.2** | **2.7** | **4.2** | **1.8** | **1.4** | **1.4** | **0.5** |
| **Overall balance** | **-3.7** | **-1.2** | **0.9** | **-1.5** | **-1.3** | **-1.3** | **-2.1** |

a. Only major items are reported.
**Source:** Ministry of Economy and Finance data; projections based on authors' calculations.

Net external assets rose 17.6 per cent in 2003 but domestic credit fell 246.9 billion CFA francs ($421.4 million) and the money supply shrank 3.2 per cent. There were fewer credits to the economy because banks have understandably become extremely cautious in the uncertain climate. Non-performing loans rose to 24.3 per cent of bank assets, though with great variations from bank to bank. Prudential ratios, especially risk spread, were not respected either. Access to credit is a major concern for the government and economic operators and microfinance institutions are facing higher risks.



Short-term credit to the economy was 74.7 per cent, medium-term 22.5 per cent and long-term 2.8 per cent of the total in August 2003 and went mostly to manufacturing (31.2 per cent), commerce (26.1 per cent) and services (23.5 per cent), much the same as in 2002. However, it contrasted with pre-crisis figures in 2001, when long-term credit had a larger share (5.2 per cent) and commerce received more than 40 per cent of credits. The government is still receiving a better interest rate (4.95 per cent in September 2003) than the inter-bank rate of 5 per cent and a rediscount rate of 5.5 per cent.

Average annual inflation was about 3 per cent in 2003 and was aggravated by supply problems due to the crisis. The most important price increases were 5.9 per cent for food, drink and tobacco and 6.9 per cent for housing, water, electricity, gas and other fuel. To keep things in check, the government renewed its price controls of key consumer items (excluding food), in March 2003. Prices should stabilise in 2004, increasing only one per cent.

### *External Position*

Côte d'Ivoire's membership of UEMOA gives it access to a regional customs union, which should benefit the country because, prior to the current crisis, the country was the region's chief trading partner. However, more than half of all Côte d'Ivoire's trade (both exports and imports) is with the European Union and trade with West Africa was only 10 per cent of imports and 16 per cent of exports in 2003.

The current account showed a positive foreign trade balance of 2.5 per cent of GDP in 2003, sharply down from the 6 per cent of the previous year. The structure of trade has also been affected by the crisis and in 2003 foreign demand for manufactured goods fell while that for raw materials increased. Total exports fell 5 per cent following a strong 2002 performance of manufactured goods, raw and processed cocoa (due to better prices) and crude oil.

Exports were badly hit by the sharp fall in cocoa prices and other raw materials from the end of first-quarter 2003 and the rise of the euro against the dollar. Because the CFA franc is pegged to the euro inside the franc zone, the real exchange rate rose 2.7 per cent and



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • An OECD Read Only

Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | 13.5 | 13.5 | 13.7 | 16.0 | 16.3 | 16.3 | 16.1 |
| Exports of goods (f.o.b.) | 38.2 | 35.2 | 35.2 | 37.0 | 35.4 | 35.2 | 34.8 |
| Imports of goods (f.o.b.) | -24.8 | -21.6 | -21.5 | -21.0 | -19.1 | -18.9 | -18.7 |
| Services | -5.6 | -7.0 | -6.4 | -8.2 | | | |
| Factor income | -9.9 | -6.2 | -5.5 | -5.4 | | | |
| Current transfers | -4.0 | -3.1 | -2.9 | -4.0 | | | |
| **Current account balance** | **-6.0** | **-2.8** | **-1.1** | **-1.5** | | | |

**Source:** Domestic authorities' data; projections based on authors' calculations.

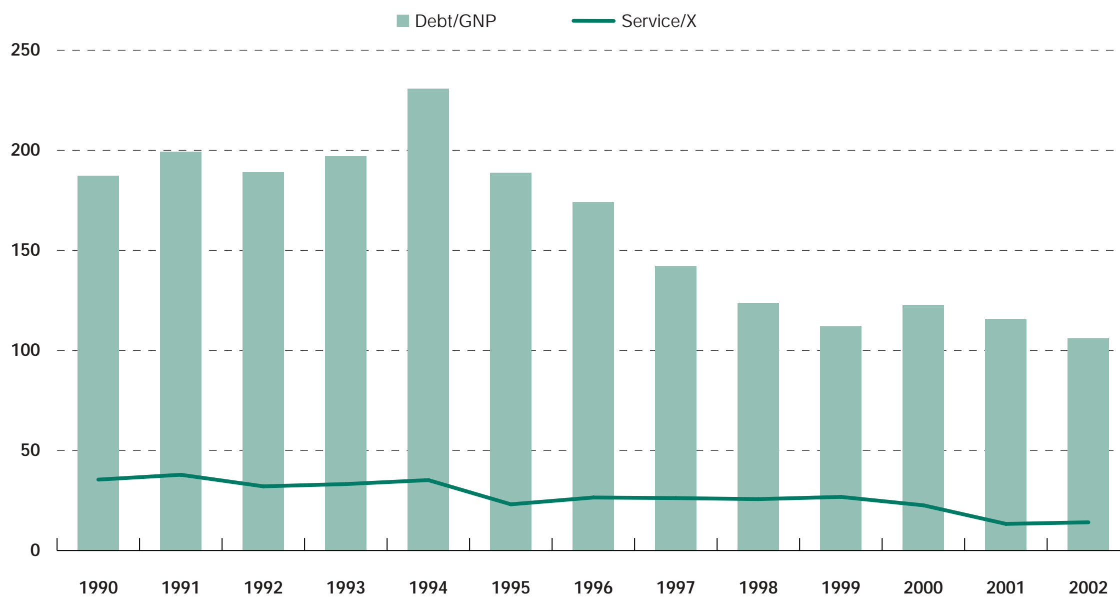
exports became less competitive. Exports are expected to decline in 2004 and 2005 to about 35.2 per cent of GDP (37 per cent in 2002).

Imports were 19.1 per cent of GDP in 2003 (down from 21 per cent in 2002) and purchases of food and equipment rose. Owing to less industrial activity, imports of intermediate goods, raw materials and semi-finished goods fell.

The capital account and financial operations showed a deficit of 315.1 billion CFA francs ($537.8 million) in 2003, after a surplus of 43.1 billion ($61.8 million) in 2002. The political crisis meant little public or private external funding was forthcoming and capital flight totalled 414.7 billion CFA francs ($707.9 million) in 2003 (under the heading of "other investments").

External aid was 156.3 billion CFA francs ($266.8 million) in 2003, down 62.4 per cent on 2002 due to suspension of projects because of arrears in payments to the French Development Agency (AFD) and the African Development Bank (ADB). The government expects this trend to reverse in 2004 and external funding to reach about 520 billion CFA francs ($887.6 million), but it must first clear its AFD and ADB debt arrears before it can restore relations with external funding sources.

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




**Source:** World Bank.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

The public external debt was estimated as 5 844.5 billion CFA francs ($9.9 billion) at the end of 2003 and debt service at 249.6 billion CFA francs ($426 million), putting Côte d'Ivoire into the HIPC category. Good implementation of a 2002-04 IMF economic and financial programme in the first eight months of 2002 raised hopes that decision point for HIPC debt relief would be reached between September and December that year. However, the September 2002 political crisis and its negative effect on debt recovery and execution of the programme threw into doubt all achievements on this score.

## Structural Issues

Before the political crisis first erupted in December 1999, Côte d'Ivoire had begun a structural reform programme to open up the economy, but implementation has been curtailed or slowed down by the crisis. In agriculture (the backbone of the economy), complete privatisation of the cocoa and coffee sectors from 1999 was partly reversed by creation of a regulatory fund and (opening in July 2001) a trading exchange for the two commodities. The aim was to help set a minimum price for growers, though this remains a problem because the fund's reserves are not sufficient to deal with a fall in world prices.

The government's development plan since 1995 had made Côte d'Ivoire's mining, energy and industrial sectors into "the second leg" of "the elephant of Africa", as the country is known. Now major offshore gas finds have raised the prospect of national self-sufficiency in energy. The government also wants to supply electricity, refined oil and butane gas to the sub-region and to make the Ivorian economy more competitive by reducing energy costs with the new gas reserves. The country has a key strategic position in the sub-region, with its port facilities, good refined oil products and fuel distribution network, and the potential of its oil and gas reserves.

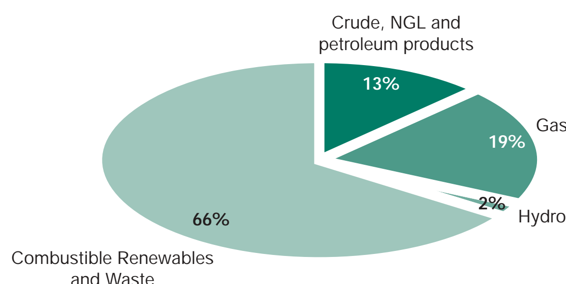
Most Ivorians use firewood for energy. Excessive felling of mangroves for cooking, building materials and drying salt has damaged natural habitats. Firewood is still plentiful in the south and the crisis has not directly affected the environment, but in the north, farmers are selling wood as an alternative source of income. Deforestation linked to use of firewood and traditional methods of making charcoal is already a major national problem, which may worsen in the north.

Oil reserves are estimated at about 100 million barrels. The Ivorian sedimentary basin is divided into 25 offshore and four onshore blocks. More than $1 billion is currently invested in the offshore sector. The national refinery company, SIR is linked by pipeline to the Le Lion oilfield, but it also receives crude from Nigeria. SIR can refine 65 200 barrels a day (3.1 million tonnes of refined products a year) and its offshoot, the Société Multinationale de Bitume, an additional 10 000 barrels a day (140 000 tonnes of bitumen a year).

Gestoci, the national storage company, near SIR in Abidjan, stocks and handles oil products for national consumption and for export to the region (Mali, Burkina Faso, Niger and Chad). A double gas and oil products pipeline is planned between Abidjan and Bouake to



Figure 7 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule


replace the present road and rail transport. A total 1.5 million tonnes of fuel oil was distributed in 1999 to three groups of Ivorian customers: the public through service stations (801 000 tonnes), industrial and road haulage firms (510 000 tonnes) and international customers such as airlines and shipping companies (378 000 tonnes).

The country has one of the best networks of service stations in sub-Saharan Africa with 458 stations and all major international competitors present in the market. Domestic fuel prices are controlled and a litre of top-grade at the pump was around 543 CFA francs in January 2004, but taxes (VAT and a special levy, the TSPP) accounted for nearly half that. Oil product taxes provide about 7 per cent of the government's total tax revenue. Distributors sold a quarter less volume of fuel oil in the first half of 2003 year-on-year.

Natural gas was first discovered in the 1980s but extraction did not begin until later. Three gas blocks are now in production and guaranteed to meet the country's needs for more than ten years ahead. Reserves are estimated at about 1.1 billion cubic feet.  Since 1998, the plant at Vridi has been able to process 75 million cubic feet a day and produces 25 000 tonnes a year of a mix of butane (86 per cent) and propane (14 per cent) for industry.

The economic crisis has sharply reduced the electricity sector's need for gas and starting production in other blocks depends on demand and pipeline projects to supply gas to Ghana, Mali and Burkina Faso. The government predicts consumption will increase 50 per cent over the next four years. About 60 000 tonnes of butane was sold in the country in 2000, but two thirds of it was imported.

Electricity is thermally and hydro-generated with a total installed capacity of 1 265.5 MW. Hydropower can reach 607.5 MW from six dams. Thermal power (from three plants) was 67.4 per cent of total production in 2002 (63.2 per cent in the two previous years). However, if the Soubre dam is completed (2006/07 at the earliest), it will balance energy supply between hydro and thermal, avoiding excessive dependence on gas.

Electricity output steadily increased from 1995 to 2002, from 2 489 GWh to 5 277 GWh. National consumption rose much more slowly and took 86 per cent of national production in 1995 and 55 per cent in 2002, allowing exports to Ghana, Benin, Burkina Faso and Togo. Other supply lines are planned to Mali, Guinea and Liberia and a regional connection arrangement, the West Africa Power Pool (WAPP), has been launched to standardise the network. In April 2002, UEMOA energy ministers announced that $10 billion was needed over 15 years to set up this project. Much of the money is expected to be raised through the New Partnership for African Development (NEPAD).

The Ivorian grid comprises 4 300 km of high-tension and 25 000 km of medium- and low-tension lines. The country is one of the better electrified in Africa, with coverage increasing from 27 per cent in 1997 to 33 per cent in 2000. There are more than 700 000 customers and 60 per cent of electricity consumed is in greater Abidjan. An ambitious rural electrification programme was launched in 1995 to hook up 7 000 towns and villages at the rate of between 200 and 250 a year. The first phase of the project, involving 355 places, is nearly complete but the second phase remains to be set up.

Ivorian electricity is among the regions least costly. The cheapest low-tension current (no more than 5 amps) carries a reduced VAT of 11.11 per cent and the government subsidises consumption of less than 80 kWh over two months, which works out at a rate of 34.83 CFA francs/kWh. Beyond this level, VAT rises to 18 per cent and the kWh price doubles, but this is still cheap. Despite the September 2002 crisis, output and exports continue to increase.

The electricity company CIE, privatised in 1990, still supplies the north despite the fighting and the political crisis, as does the water company SODECI, which is privately owned. Production in 2002 was 5 276.2 GW (up 8.4 per cent on 2001), 29.7 per cent of which was exported (23.7 per cent the previous year). Nevertheless, medium-tension consumption fell more than 10 per cent in the first half of 2003 year-on-year



© AfDB/OECD 2004 

OECD Browse_it Edition • For Read Only • Lecture seule

due to slower industrial activity. About 15 per cent of CIE customer bills remain unpaid because of the crisis – surprisingly low in view of the problems experienced – and this has put the firm in the red for the first time since it was privatised.

The privatisation programme launched in April 1990 envisaged liberalising about 60 state-owned firms (then about three quarters of the public sector in terms of turnover, jobs and value added). They included transport, food processing, telecommunications, energy, banks, publishing, tourism, public works and mining companies. The pace of disposal quickened in 1994 after devaluation, which made the country's products more competitive, but the last privatisation was in May 2002.

Côte d'Ivoire Telecom, privatised in 1997, has modernised its infrastructure but only about 340 000 people had a fixed line in 2003, while four times as many (1 400 000) used mobile phones, 95 per cent of them with pre-paid cards. After the September 2002 crisis, communications were cut between the north and south of the country. Fixed lines were restored in November 2002 and GSM connections in April 2003. Côte d'Ivoire is also considered the most computerised country in the region.



Privatisation of CIE, based on the experience of SODECI (which has always been in private hands), has been a success and others are planned, including the refinery company SIR and national oil company, Petroci. Private operators and Build Operate Own and Transfer (BOOT) arrangements have proliferated in electricity generation and supply of natural gas to thermal plants. However, though privatised, CIE will keep a government franchise to transport and distribute electricity at least until 2005.

Petroci was reorganised in 1998 into four parts. Petroci Holding, entirely state-owned, is in charge of sector policy and the three subsidiaries. Petroci Exploration-Production is responsible for upstream activity such as supply, research, prospection and production. Petroci Gaz handles distribution and sale of gas and by-products and Petroci Industries-Services takes care of all the sector's other activities, including wharfage and production and sale of oil-related products. Only 49 per cent of the three subsidiaries are privately held but complete privatisation will take place when the market is favourable. To ensure complete opening-up of the oil sector and the key activity of storage, Gestoci's privatisation will have to be co-ordinated with that of SIR.

With the goal of becoming the "Elephant of Africa", in 1996 Côte d'Ivoire began a wide range of major infrastructure projects to be funded, run and carried out by private firms under BOOT arrangements. They included building private universities, student dormitories, bridges, housing, markets, motorways, bus stations and car parks, as well as regional integration projects such as an Abidjan-Niamey-Ferke-Bamako-Dakar railway line. However, these projects were badly delayed and after September 2002 were all curtailed. Several problems of infrastructure maintenance and payment arrears have since arisen.

The banking scene was revolutionised by the 1991 structural adjustment of the financial sector and the 1994 devaluation. Credit houses have become more solvent and improved their liquidity. The country has 15 banks with 159 branches nationwide and seven financial firms. However all banks in the north have been closed since the political crisis began.

The regional stock exchange (BRVM) is part of UEMOA, with a branch in each of the eight member countries. Of the 38 companies quoted on it in October 2003, all but one (the Société Nationale de Télécommunication du Sénégal) were Ivorian and values have continued to slide. The composite share index dropped by 4 per cent, the index of ten leading shares by 1.2 per cent and the total share value by 8.7 per cent between December 2002 and December 2003.

## Political and Social Context

The events of September 2002 cut the country in half and closed routes from the capital to the north and to the landlocked countries beyond. However, the authorities recently stressed their desire to normalise



© AfDB/OECD 2004

An OECD Browse_it Edition • Lecture seule • Read Only


the situation, in an effort to present an optimistic view of an end to the conflict.

Most of the agreements required under the Marcoussis peace accords have been drawn up and some adopted by the government. Only those concerning rural property law and naturalisation are subject to approval by referendum. The president and the prime minister (in power since January 2003) have been working well together since November 2003. However, the Ivorian public, all economic players and the international community are waiting for the October 2005 presidential elections before assuming stability, thus dragging out the present uncertainty.

The peace process should be completed when United Nations troops arrive in April 2004, enabling restoration and repair of roads, water, electricity, TV and radio and social services. An initial phase of demobilisation, disarmament and social reintegration was set for the end of March 2004 in Bouake, Yamoussoukro and Daoukro. Front-line heavy weaponry was withdrawn in December 2003 but 230 000 fighters remain in the north. The soldiers are supposed to return to barracks with their weapons and civilian fighters are to be demobilised.

The second phase is returning the displaced population and then rebuilding and restarting the economy. Restoring government services involves more than 24 000 civil servants who have been particularly targeted and threatened by the rebels and who will be paid indemnities of between 300 000 and 1 million CFA francs to get them to return to their posts.

International organisations such as the World Bank and the IMF have a key part to play in resolving the conflict by funding reconstruction. The Bank has approved $11 million for education and $29 million for health. A new three-year PRGF programme may be agreed in 2004. Money from funding agencies will initially just go to restoring infrastructure.

The fighting has brought the spread of disease, abuses and destruction of property in the war zones, increased human suffering and created many humanitarian problems all over the country, though the damage to social indicators cannot yet be accurately measured. Latest World Bank estimates are that the proportion of people living below the poverty line of earning $1 a day – which increased from 33 to 38 per cent between 1998 and 2002 – is expected to have risen further in 2003 to between 42 and 44 per cent. In 2001, 11 per cent of the population were living in extreme poverty, defined in 1998 as an annual income of 95 700 CFA francs.

The percentage of underweight children under five in 2001 was 21.2 per cent, but 171.3 in 1 000 did not live to that age. Maternal mortality was 597 in every 100 000 live births and only 47.7 per cent of births were professionally assisted. An anti-HIV/AIDS programme was launched in 1987 but the disease's spread has cancelled out efforts to fight it. About 10.4 per cent of adults are infected, with the highest death rate from it in the 30-49 age group. Some 10.5 per cent of pregnant women were found to be infected in 2001 and 600 000 children were HIV/AIDS orphans.

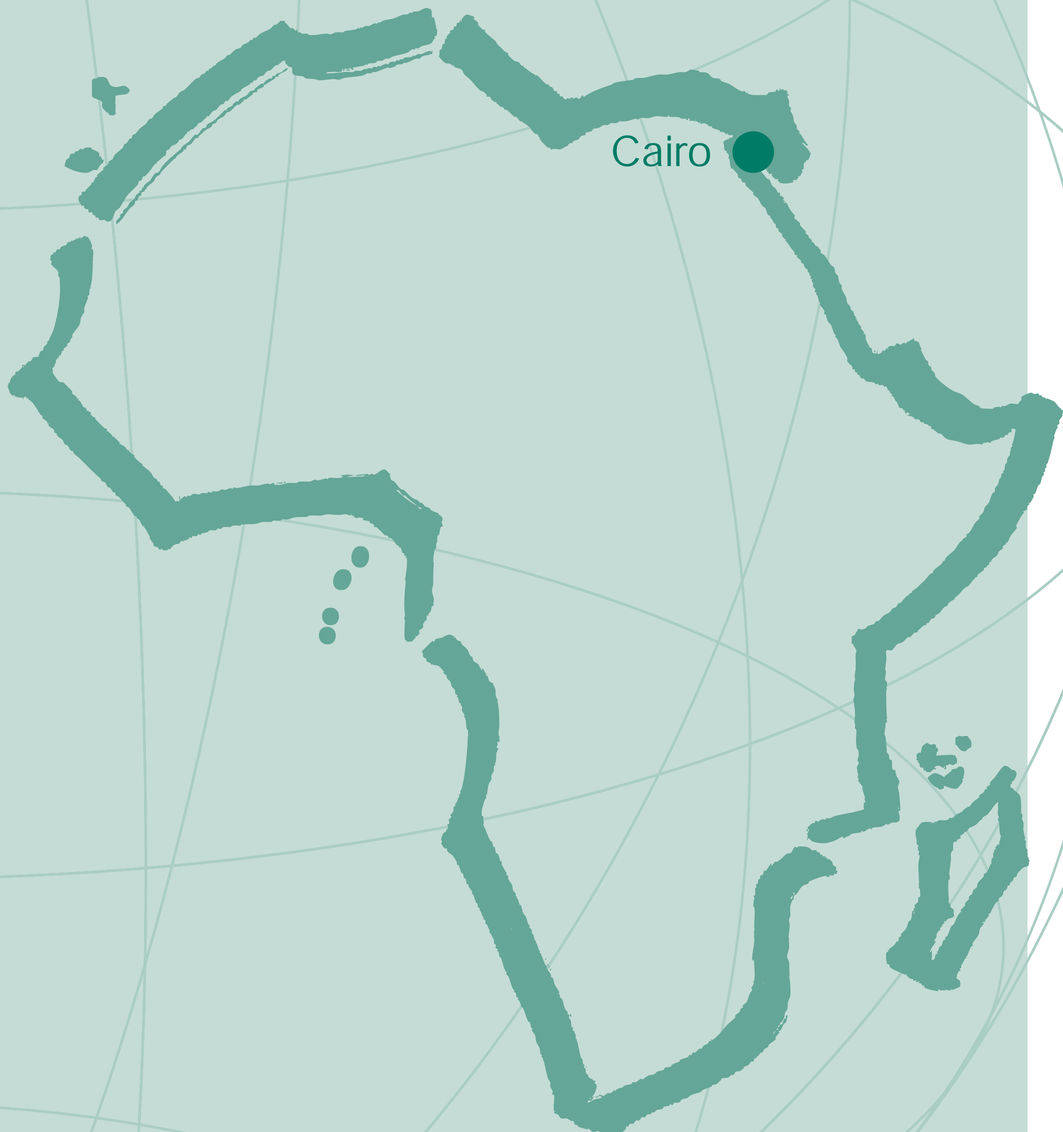
Net primary school enrolment was 59.9 per cent in 2001 but gender disparity was very marked at both primary and secondary levels, with only 53.1 girls to every 100 boys in secondary school. More than half of all adults were literate (60 per cent of men and 38 per cent of women). Since then, the education situation has worsened and become disastrous in the war zones, where many schools have been destroyed and nearly 340 000 children have been out of school for more than a year. Classes and exams should resume gradually and be back to normal by 2005.



© AfDB/OECD 2004 

An OECD Browse_it Edition • Read Only • Lecture seule

# Egypt




**key figures**

- Land area, thousands of km² 1 001
- Population, thousands (2002) 70 507
- GDP per capita, $ (2001/2002) 1 203
- Life expectancy (2000-2005) 68.8
- Illiteracy rate (2002) 43.1

An OECD Browse_it Edition • Read Only • Lecture seule

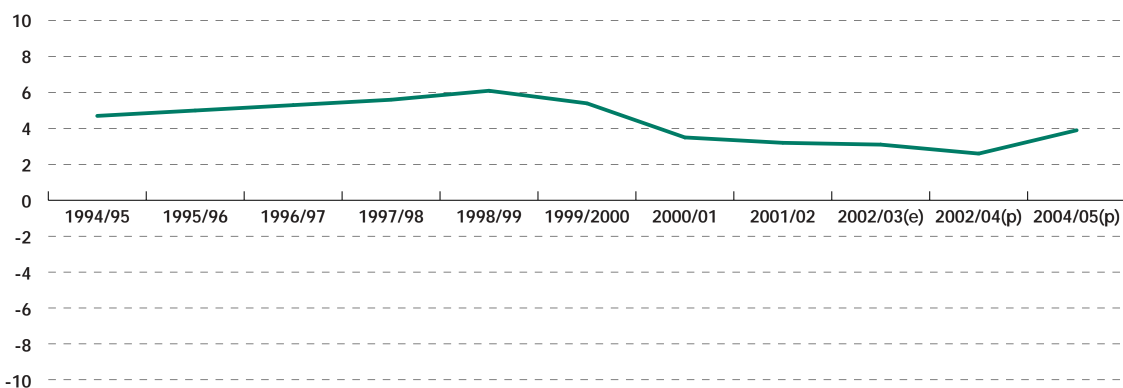
Economic growth in Egypt is expected to slow to 2.6 per cent in 2003/04 down from 3 per cent in 2002/03. Regional instability, mainly due to the Israeli-Palestinian conflict, the war in Iraq and terrorist attacks, has kept the economy depressed since 1998/99, with much smaller growth than prior to this period. There are signs of recovery however, and 2004/05 could see growth return to about 4 per cent.

Tourism has rebounded after a big drop in 2001/02 and despite the Iraq war, oil revenue has risen sharply with higher world prices. Suez Canal revenue set a record in 2003 mainly thanks to increased military traffic. The natural gas sector is booming and will generate new export earnings, while cement and metal products have done very well since mid-2003.

The introduction of a partly flexible foreign exchange system in January 2003 was a major event and caused a sharp unofficial devaluation of the Egyptian pound. Foreign currency shortages persist however, and the pound's weakness has had little impact on boosting export volumes so far, though it has boosted inflation. With the job market worsening and tight budget conditions linked to social spending goals, the government is trying to improve the business climate by pushing on with privatisation and reform of the financial sector.

The introduction of a partly flexible foreign exchange system in January 2003 caused a sharp unofficial devaluation of the Egyptian pound.

Figure 1 - **Real GDP Growth**




**Source:** Domestic authorities' data; projections based on authors' calculations.



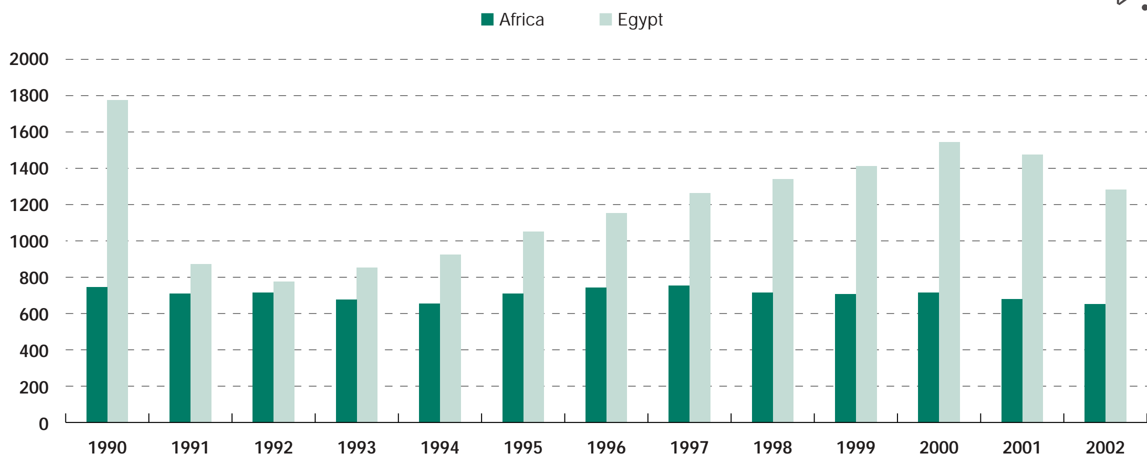
## Recent Economic Developments

GDP volume growth, which had returned to 4 or 5 per cent since the 1991 adjustment programme, has declined in recent years to 3.5 per cent (2000/01), 3.2 per cent (2001/02) and 3.1 per cent (2002/03) and is forecast to be 2.6 per cent in 2003/04. With a 2 per cent population growth rate, real per capita GDP growth is less than 1 per cent. However, the 2004/05 financial year may see growth increase again to nearly 4 per cent.

Agricultural output has been steady for several years and was 3.4 per cent in 2001/02, though cotton production is expected to fall to 285 000 tonnes in 2002/03, from 315 000 in 2001/02. Increased cereals and fruit production has eased the domestic shortage in a sector traditionally heavily dependent on imports. High population growth and limited water resources mean

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

national production cannot keep up with local demand (except for meat and milk) and the country imports a large amount of food (9 per cent of all imports in 2002/03).



Agriculture's share in GDP and employment has been falling since the 1970s, but farming is still a key sector and has become more productive since the mid-1980s. It accounted for 11 per cent of export earnings in 2001/02, mainly for cotton, but also potatoes, garlic, onions, lemons and medicinal plants. Horticultural exports to Europe have grown in recent years.

There is much hope that the association agreement concluded with the European Union, which aims for free trade by 2010, will open up new markets for farm products in the Euromed zone. The country is also counting on the ability of its food-processing sector to increase its exports of fruit, vegetables and food products.

Industry and mining (excluding oil) contributed 19 per cent of GDP in 2001/02 and employed nearly 14 per cent of the workforce. Over 90 per cent of firms in the sector were small-and medium-sized and not very competitive internationally.

Cement production jumped 6.7 per cent by volume between 2001/02 and 2002/03 and the metal goods sector fared just as well. But the food-processing industry slowed though it continued to attract foreign investors. Since 2002, they have bought the Family Nutrition Company (taken over by Kraft) and Al Ahram Beverages (by Heineken). Pharmaceutical firms were squeezed between government price controls and dependence on importing costly goods in foreign currency.

Energy production (about 10 per cent of GDP) continues to play a very big part in the economy, since Egypt has huge oil and gas reserves and the sector generates significant revenue for the government. Production and export volume of crude and oil products continued to decline in 2001/02, though new discoveries offset the fall in the Gulf of Suez production. The natural gas sector is booming.

Services account for a relatively high 50 per cent of GDP, but the sector is very vulnerable to regional turmoil. Tourism is still the main source of foreign earnings despite the drop after the 11 September 2001 attacks. Arrivals were down more than 20 per cent between the attacks and March 2002. Though they subsequently recovered, the war in Iraq led to a 22 per cent decrease in arrivals in March 2003 (year-on-year). Again though, the sector appeared to bounce back quickly that summer. Lack of western tourists had been made up for by increasing numbers of visitors from Eastern Europe and the Gulf states, though per capita spending is less.

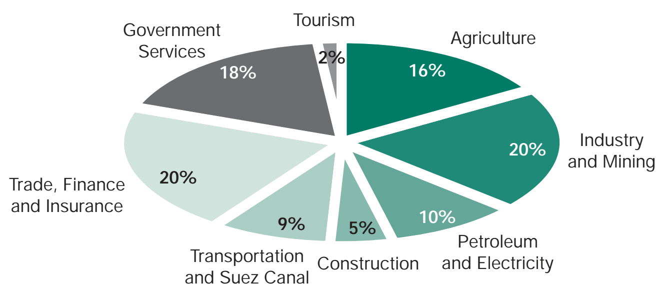
Suez Canal revenue had been expected to fall because of the Iraq war and higher insurance premiums linked



© AfDB/OECD 2004

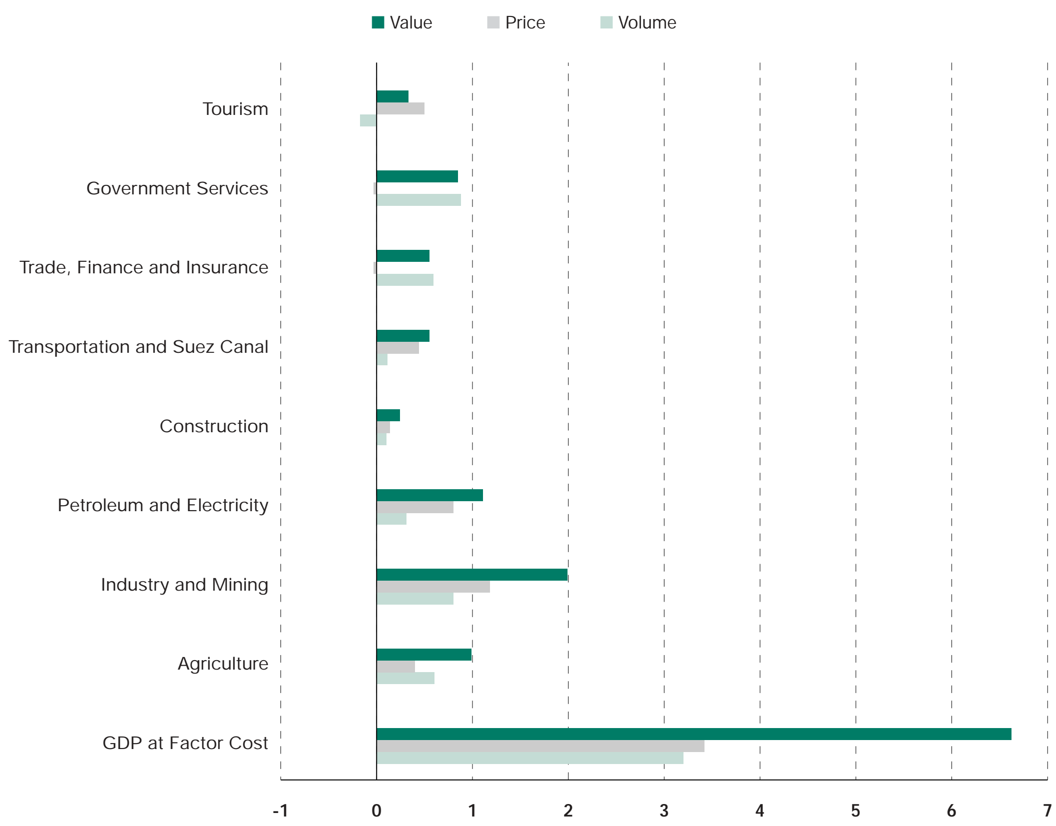
OECD Browse_it Edition • Read Only • Lecture seule • An OECD

Figure 3 - **GDP by Sector in 2001/02**




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

Figure 4 - **Sectoral Contribution to GDP Growth in 2001/02**




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

to increased risk, but revenue increased 23.7 per cent in 2002/03 to a record $2.25 billion. This was partly due to increased military traffic, but also to recent work in deepening the canal as well as to a 10 per cent increase in tanker traffic. Taxes and profit transfers by the state oil company and the Suez Canal Authority accounted for more than 7 per cent of total government revenue in 2002/03.

Egypt depends heavily on foreign savings to fund its investments. The low credibility of the banking system, dollarisation of the economy and effective devaluation

OECD Browse_it Edition • Read Only • Lecture seule

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995/96 | 1999 /2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **16.9** | **19.6** | **18.3** | **18.1** | **17.4** | **18.2** | **18.5** |
| Public | 5.6 | 6.0 | 5.2 | 4.6 | 4.8 | 5.1 | 5.2 |
| Private | 11.3 | 13.6 | 13.0 | 13.5 | 12.5 | 13.2 | 13.4 |
| **Consumption** | **89.1** | **87.1** | **86.6** | **85.6** | **84.8** | **78.2** | **77.5** |
| Public | 10.6 | 11.2 | 11.3 | 11.8 | 11.5 | 11.0 | 11.0 |
| Private | 78.5 | 75.9 | 75.3 | 73.7 | 73.3 | 67.3 | 66.6 |
| **External sector** | **-6.0** | **-6.6** | **-4.9** | **-3.7** | **-2.2** | **3.5** | **4.0** |
| Exports | 21.2 | 16.2 | 17.5 | 18.2 | 21.5 | 29.7 | 30.1 |
| Imports | -27.2 | -22.8 | -22.3 | -21.8 | -23.7 | -26.2 | -26.1 |

**Source:** Ministry of Foreign Trade; projections based on authors' calculations.

of the national currency has not encouraged people to use savings accounts. Investment fell from over 20 per cent of GDP in 1998/99 to 17.4 per cent in 2002/03.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

The budget deficit was 5.8 per cent of GDP in 2001/02 (5.6 per cent in 2000/01 and 3.9 per cent the previous year) and has been growing since 1996/97. It rose further in 2002/03, to an estimated 6.2 per cent, and is expected to top 6 per cent in 2003/04 and 2004/05. This is a challenge to the government and a threat to economic recovery. However, if the social security fund surplus is included, the 2002/03 figure falls to 4.8 per cent. Public debt was more than 70 per cent of GDP in March 2003.

A more than 10 per cent annual increase in public spending, plus a shortfall in funds available, has worsened the budget balance for the past two years. Apart from preserving social welfare spending – the biggest 2002/03 budget item at E£50.3 billion ($9.8 billion), 30 per cent of total expenditure – budget priorities are boosting government revenue, improving financial management, restructuring the public debt and encouraging growth and exports. The budget deficit is structural rather than temporary. Interest due on government debt was 18 per cent of total expenditure in 2002/03. About a quarter of the budget goes on wages and salaries and a sizeable and often disputed chunk

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

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue** [b] | **27.1** | **22.2** | **21.2** | **20.7** | **21.1** | **20.7** | **20.8** |
| Tax revenue | 17.0 | 14.6 | 14.3 | 13.6 | 14.6 | 14.4 | 14.3 |
| Grants | 2.8 | 0.5 | 0.4 | 1.0 | 0.7 | 0.5 | 0.6 |
| **Total expenditure and net lending** [b] | **28.4** | **26.1** | **26.8** | **26.5** | **27.4** | **26.8** | **27.1** |
| Current expenditure | 22.8 | 20.5 | 22.5 | 22.4 | 23.3 | 22.5 | 22.7 |
| *Excluding interest* | *15.6* | *15.0* | *16.7* | *16.4* | *16.7* | *16.0* | *15.9* |
| Wages and salaries | 6.2 | 6.5 | 7.0 | 7.4 | 7.7 | 7.1 | 7.0 |
| Interest | 7.1 | 5.5 | 5.8 | 6.0 | 6.6 | 6.6 | 6.8 |
| Capital expenditure | 5.6 | 4.9 | 4.2 | 4.0 | 4.0 | 4.3 | 4.3 |
| **Primary balance** | **5.8** | **1.6** | **0.3** | **0.2** | **0.3** | **0.5** | **0.4** |
| **Overall balance** | **-1.3** | **-3.9** | **-5.6** | **-5.8** | **-6.2** | **-6.1** | **-6.4** |

a. Fiscal year begins 1 July.
b. Only major items are reported.
**Source:** Ministry of Foreign Trade data; projections based on authors' calculations.





© AfDB/OECD 2004

Browse_it Edition • Lecture seule • Read Only • OECD

is earmarked for subsidising staples such as sugar, bread, transport and energy.

The 2003/04 budget approved by parliament will not improve the situation as it contains E£159.6 billion ($31.2 billion) of expenditure, to make an overall E£29 billion ($5.6 billion) deficit (up from the current E£22.2 billion – $4.3 billion), with spending growing at twice the rate of revenue. The projected 4.5 per cent revenue increase in 2003/04 is tied to higher income and company taxes (+6 per cent), customs duties (+8.7 per cent), sales tax (+9.6 per cent), as well as Suez Canal revenue, privatisation proceeds and 9 per cent higher profits from state-owned firms.

Reform of income tax, customs duties and other levies is moving very slowly however, and the projected extra revenue seems over-optimistic. The government plans to raise money by issuing E£27.7 billion ($5.4 billion) worth of treasury bonds in 2003/04. The June 2003 banking legislation established the central bank's independence in choosing monetary instruments to achieve the common goals set by a co-ordination committee. The new law also stated that, in principle at least, the exchange rate should be allowed to float in addition to setting some prudential rules for monetary control. However, a growing budget deficit financed by bank loans could endanger the central bank's control of the money supply. Restrictions on use of exchange reserves for open market operations seriously hamper the bank's ability to conduct an independent monetary policy.

In a bid to revive the economy and improve liquidity, the central bank pursued an expansionist monetary policy between September 2001 and December 2002 by cutting the discount rate and the minimum reserve ratios for bonds and liquidity. However, under the new flexible exchange system, the central bank announced a more energetic monetary policy to fight inflation. So, since the pound was floated in January 2003, interest rates have gone up and the money supply has shrunk, as the bank's medium-term restrictive policy aims to halt the pound's slide. Since then the credit interest rate has been 10.5 per cent and the debit rate nearly 13 per cent. The money supply (M2) grew 9.3 per cent in 2002/03, less than the average annual rate for the past five years. Dollarisation (the percentage of foreign currency deposits in total liquidity) was 27.2 per cent in April 2003, which was high and rising. Banks were very cautious in the uncertain conditions opting to invest treasury bonds rather than loans to the private sector. Lending focused on the least risky sectors (electricity, oil, natural gas, telecommunications and food processing) and small and medium-sized firms were cut out of traditional credit schemes.

The fall in the value of the pound helped push the official inflation rate up to 3 per cent in 2002/03 and 5.2 per cent in 2003/04, after being only 2.4 per cent in 2001/02. Consumer price subsidies for 15 staples helped control inflation but also increased the budget deficit. Inflation should be back down to 2.7 per cent in 2004/05.

After a decade of being strictly pegged to the US dollar, the Egyptian pound was devalued three times in 2001, but it remained under pressure. Though the currency was floated in January 2003, this was not total as restrictions on pound external transactions remained. However the pound sank 25 per cent in relation to the dollar (E£6.15 in December 2003) and even more against the euro (E£7.70 in December 2003), which is the currency used for most imports.



Despite the substantial 48 per cent fall against the dollar over three years, foreign exchange is very hard to obtain. None can be got on the interbank market, so the parallel market continues to serve many firms and individuals at a steady 20 per cent above the official rate. In March 2003, the parallel market rate was about E£6.80 before it fell to just 5 per cent above the official rate (E£6.50) in August that year.

In March 2003, the government introduced "requisitioning" of foreign currency from exporters, obliging them to bank 75 per cent of the proceeds of their foreign currency transactions within a week. The remaining 25 per cent is supposed to be used to pay for imports with more permitted in documented special cases. This arrangement does not work very well and has not really increased the banks' currency reserves.

OECD Browse_it Edition • Read Only • Lecture seule

However, the balance of payments showed enough foreign currency reserves in June 2003 to cover more than 10 months of imports. The reserves crisis is thus more a problem of availability of foreign currency to business, rather than one of liquidity, posing a serious obstacle to economic growth.

### External Position

Egypt is quite a self-contained country but exports should top 11 per cent of GDP in 2004/05 (up from nearly 7 per cent before 2000/01). Total trade (imports and exports minus services), which were a quarter of GDP before 2000/01, should also grow in the next few years to more than 30 per cent.

Imports are increasingly pushing out local products and the government is trying to reverse the trend. Items concerned are mostly equipment and materials for local industry, such as machinery and vehicles, and consumer goods such as livestock, food and beverages. Exports are mainly raw materials such as crude oil, raw cotton and other crops, as well as oil products, textiles, metal goods and cement, but they are at the mercy of world prices and the range of products sold is still narrow.

The association agreement signed with the European Union on 25 June 2001 is due to come into force at the end of 2004, after ratification by the Egyptian, European and EU member-state parliaments. This accord creates an area of dialogue, co-operation and trade between EU countries and the 12 southern Mediterranean states.

Egypt has signed regional agreements with African and Arab countries in an effort to boost exports. It has been a member of the Common Market for Eastern and Southern Africa (COMESA) since 1998 and all Egyptian tariffs against other members should be completely abolished in 2004. It also signed a preliminary agreement in January 2003 to set up a free trade area with Tunisia, Morocco and Jordan as part of the Euromed integration process.

The trade liberalisation policy and complying with World Trade Organisation rules should lower the country's very high customs duties (up to 40 per cent) on imported cars, spare parts, alcoholic beverages and agricultural products. Non-tariff barriers, such as quality controls, still apply to many consumer items. Tax and customs reform has been postponed by parliament until 2004.



Table 3 - **Current Account** (percentage of GDP)

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -14.3 | -11.5 | -10.4 | -8.9 | -8.3 | -9.1 | -9.2 |
| Exports of goods (f.o.b.) | 7.0 | 6.4 | 7.8 | 8.4 | 10.3 | 11.4 | 11.3 |
| Imports of goods (f.o.b.) | -21.3 | -17.9 | -18.2 | -17.3 | -18.6 | -20.5 | -20.5 |
| Services | 7.9 | 4.6 | 5.0 | 4.3 | | | |
| Factor income | 0.8 | 1.1 | 1.2 | 0.3 | | | |
| Current transfers | 5.3 | 4.7 | 4.1 | 5.0 | | | |
| **Current account balance** | **-0.3** | **-1.2** | **0.0** | **0.7** | | | |

**Source:** Egyptian Central Bank; projections based on authors' calculations.

The trade balance improved in 2002/03 despite more costly foreign currency priced imports. While import volume was greatly limited by the economic slowdown and the problem of getting foreign exchange, exports by value (in E£) got a boost from higher oil prices and depreciation of the pound and were 10.3 per cent of GDP in 2002/03 (up from 8.4 per cent the previous year).

The better services balance was due to the revival in tourism and Suez Canal revenues (which were a record $2.25 billion in 2002/03). But net investment declined as the external debt and its servicing increased in 2002. The current account balance had a surplus of 2.4 per cent of GDP in 2002/03, but because of higher imports and less military traffic through the Canal this may fall in 2003/04.



© AfDB/OECD 2004

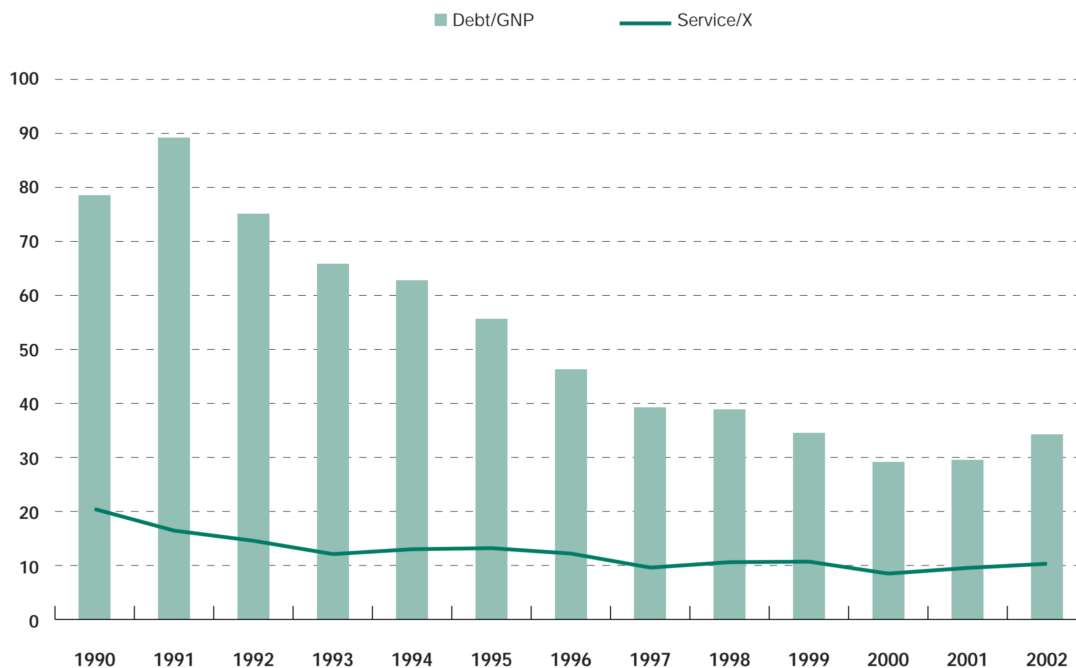
An OECD Browse_it Edition • Read Only • Lecture seule

The government is trying to attract foreign investors by increasing transparency, providing equal treatment for investors and safeguarding their rights. A new labour law in 2003 allows more flexible hiring and firing of workers, a key point for foreign investors.

But regional instability and recent poor economic performances have kept foreign capital away, so despite a rise in direct investment (to $700 million in 2002/03) and less capital flight, the inflow of external funding was only 0.9 per cent of GDP in 2002/03 (0.5 per cent in 2001/02), leaving a capital account deficit of $2 786 million in 2002/03. Net direct investment was positive but far behind the levels reached in the later 1990s and portfolio investments, barely positive in 2001/02, were negative in 2002/03.

Thanks to the exceptionally high 50 per cent debt relief granted by the Paris Club in 1991, Egypt has only a small external debt. The country receives more US public development aid than any other and is overall one of the most financially-aided countries of Africa. Most of the external debt is public and in the form of medium and long-term soft loans.

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




**Source:** World Bank.

Both external debt and servicing steadily fell between 1991 and 2001. However, to finance the budget deficit the government issued $1 500 million worth of Eurobonds in June 2001. This significantly increased both its debt and servicing commitments in 2002/03. From 28 per cent of GDP in 2001/02, debt rose to 31.2 per cent in 2002/03, and servicing increased from 8.7 to 10.5 per cent of goods and services exports in the same period. Total medium-and long-term external debt was $28 835 million in December 2002.

## Structural Issues

Egypt has managed to stabilise its economy, with partly liberalised trade and steady progress towards a market economy. But structural reform is held up in several areas.

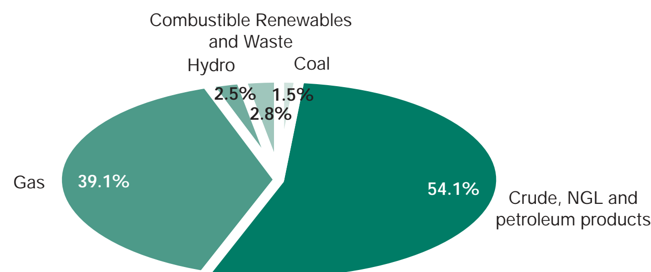
The energy sector plays a very key part in the economy, as the country has large oil and gas reserves. Directly and indirectly, these are a big source of government

OECD Browse_it Edition • Read Only • Lecture seule

revenue, through taxes, exports and transport. The industry accounts for 20 per cent of GDP and oil products are 40 per cent of export earnings. The country is self-sufficient in energy but demand is rising fast, with primary energy consumption rising from 61 per cent of national production in 1990 to 80 per cent in 2001.

The rural population uses mainly commercially-produced energy such as kerosene, liquefied natural gas (LNG) and electricity, which are cheap and meet most needs. About 95 per cent of the population had electricity in 1994, including all schools and clinics. Very cheap natural gas means that the cost is very low ($0.02/kWh in 2003). Non-commercial energy consumption includes animal dung cakes, cotton stalks and straw, but since there are few wooded areas, it only amounted to 3 per cent of total energy consumption in 1994 and involved mainly the poorest households (income below $60/month).

Figure 6 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.



Energy subsidies (mainly butane, diesel and natural gas) were estimated by the finance ministry at E£16.7 billion ($3.2 billion) in 2003/04. Energy in Egypt is therefore extremely cheap, often below market prices, but these subsidies burden the national budget, particularly given the depreciation of the pound and the growing demand for energy. The cost of a litre of top-grade petrol at the pump, at E£1 ($0.16), is well below the world price. Diesel, much of it imported, costs E£0.40, which is below cost price.

Pricing is a major problem in the oil and electricity sectors and combined with the growing costs for equipment and machinery (particularly those in foreign currency), fixed prices cause losses and have begun to impede profitability.

The oil industry is the biggest element of the economy, even though volume production peaked in 1996 (922 000 barrels a day) and has steadily fallen since then (631 000 barrels a day in 2002). However, 15 recent new discoveries will boost production to more than 800 000 barrels a day, and proven oil reserves were put at just under 3 billion barrels in 2001. The country has eight refineries that can handle about 726 000 barrels of crude a day. The Suez-Mediterranean (Sumed) pipeline, with a daily capacity of 2.5 million barrels, was built as a land alternative to the Suez Canal to move oil from the Persian Gulf and earned $1.96 billion in 2002.

National consumption of oil products is steadily growing, with crude oil up from 456 000 barrels in 1991 to 585 000 in 2001 and oil products up from 19.8 million tonnes to 22.5 million tonnes over the same period. The government is trying to discourage use of oil in favour of gas so as to maintain export earnings (a quarter of oil production is exported).

Following large new discoveries, the gas sector is now very promising. Reserves were estimated at 58 000 billion cubic feet in 2002, but can now probably be put at 120 000 billion (equivalent to 20 billion barrels of oil).

The natural gas currently extracted is in the Mediterranean, off the Nile Delta, and in the Western



© AfDB/OECD 2004

Browse_it Edition • Read Only • Lecture seule • OECD

Desert. The country consumes all of it but demand for gas has risen quickly with firms using thermal energy accounting for 63 per cent of consumption (81 per cent of them having switched from oil to gas). Private companies are trying to make gas available to all and Cairo's public buses run on compressed natural gas (CNG). Gas consumption rose from 7.1 million tonnes in 1991/92 to 17.8 million in 2000/01.

A 290 km pipeline links the Western Desert gas fields at Obeiyed and Khalda to Alexandria. Plans to build others to take gas to Libya, Israel and the Palestinian Authority are under way. A subterranean pipeline to Jordan opened in July 2003 and, at least initially, liquid gas (LNG) should be exported to Turkey.

Electricity generation capacity was estimated at 17.5 GW in 2001 and should reach 23 GW by 2010 with the construction of new gas-fired thermal plants. The sector's big problem is the cost of upgrading infrastructure. Volume production grew from 41.4 billion kWh in 1990 to 83 billion in 2001/02, enabling the country to export 255 million kWh in 2001/02. Having been evenly split in the 1980s, about 80 per cent of production is now gas-fired thermal and the rest is hydro.

Efforts are being made to make the grid more accessible and reliable, aiming to reduce wastage and export surplus current. In 1998, interconnection with Jordan and Libya was completed and links with other neighbouring countries are being studied, as well as a very ambitious project to exploit Egypt's strategic location and link Africa, Europe and Asia.

Investment in the electricity sector – put at E£3.3 billion ($647 million) in 2002/03 – aims to boost capacity by 6.1 billion kWh, increase consumption by 5.5 billion kW/h and hook up 500 remote villages. More accessible and reliable current for all villages is a priority.

Egypt also wants to expand its renewable energy capacity by using solar and wind power, both to diversify energy sources and protect the environment. The country has major water and air pollution problems, with carbon emissions rising 170 per cent between 1980 and 1998. By 2010, solar and wind power should be about 3 per cent of total energy consumption.

The government has declared that it will step up privatisation in order to both demonstrate its commitment to reforming the economy to foreign investors and to reduce the internal deficit. However, though 314 firms were earmarked for privatisation in 1991, only 194 of these have been disposed of (including 33 that were liquidated), raising E£16.6 billion ($3.2 billion). The Ministry of Public Enterprise plans to privatise 35 more by the end of 2004, including seven metalworking firms and seven pharmaceutical companies.

The main firms in the energy sector are still state owned. The Egyptian Electric Holding Company (EEHC) produces and distributes electricity, the Egyptian General Petroleum Company (EGPC) controls the oil sector and the Natural Gas Holding Company (NGHC) is responsible for gas policy. Egypt has chosen partial privatisation of energy so as to ensure the strong demand is more effectively met. However the government is pinning a lot of hope on the private sector through Build-Own-Operate-Transfer (BOOT) arrangements to expand exploration and increase the amount of electricity available.

A new telecommunications law in February 2003 should eventually enable this sector to be opened up, but meanwhile Telecom Egypt retains a monopoly on the country's 7 million fixed phone lines, though in May 2003 over 1 million internet connections and 4.9 million mobile phone subscribers were supplied by several operators.

Major infrastructure projects are under way (E£19.9 billion in the 2002/03 budget), including giant hydraulic works such as the Toshka project in the south, and canals in Middle Egypt and Sinai, and the extension of urban water supply and purification plants. The government also plans to recover 1.4 million hectares of arable land by 2017 and to build 260 000 housing units and 22 industrial cities in desert areas. By 2002/03, the first stage of construction had been completed in 19 of these cities, but the cost and size of these projects make them controversial.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

The government also plans to invest E£5.8 billion ($1.1 billion) – including £E2.1 billion ($411 million) in public funds – in 2002/03 to expand the transport network to link industrial and agricultural activity nationwide. This includes plans to upgrade, extend, develop and make safer the railways, main roads, bridges, ports and air traffic.

The financial sector was liberalised and deregulated, but banks are not really more competitive as a result and perform poorly. Banking is dominated by four publicly-owned firms which account for half of the sector's activity but also hold a significant number of bad debts.

Corruption and fraud scandals recently surfaced leading to several managerial teams being replaced. The June 2003 banking law tightened prudential rules and allowed some liabilities and bad debts to be restructured. Of the country's 60 or so banks, four private ones are unable to increase their capital to meet the prudential ratio set in Basel in March 2003 making some bank failures and/or mergers likely. The central bank wants to see fewer and more sound banking and financial institutions in operation.



The national Cairo and Alexandria Stock Exchange (CASE) had 1 123 firms listed in June 2003, making it Africa's second biggest (after Johannesburg), though only about 100 of these were actively traded. The 20 largest firms accounted for 45 per cent of the exchange's capitalisation and for 71 per cent of shares traded in first-quarter 2003. After a slack year in 2002, the CASE soared in 2003 when the pound was floated and the Iraq war brought to a rapid end.

## Political and Social Context

President Hosni Mubarak has ruled the country for more than 22 years and the next elections will be in October 2005. The ruling National Democratic Party (NDP) has an overwhelming majority in parliament and voter turnout is usually very low. At the last parliamentary elections in 2000, national voter participation was only 24 per cent and just 12.6 per cent in Cairo. Participation in local politics is higher with 42.4 per cent turnout in the 2002 local elections. Only 1.6 per cent of those elected were women. The government is trying to push decentralisation and is introducing mandatory local participation in all human development programmes in the coming years.

Despite great progress in improving social conditions over the past decade, much remains to be done to eradicate extreme poverty, sharp gender inequality and differences between provinces in health, education and standards of living. The country is economically divided between north and south with a concentration of manufacturing and commerce sustaining the north while poverty deepens in the south. Upper Egypt (in the south) is the poorest region, and in 2000/01 a fifth of its inhabitants survived on less than $2 a day. Between 1995/96 and 1999/2000, the poverty rate fell by 2.7 per cent thanks to economic growth and the government's expansionist budget policies but the recent economic slowdown may have reversed this trend.

To reduce poverty, the government will have to focus on developing the south. The poorest households currently receive small social security payments (about E£3.50/month) and consumer staples are subsidised. The efforts of the social affairs ministry however, are hampered by lack of funds. Combating poverty and inequality is listed as the third objective of the government's fifth Social Plan (2002/03-2007/08), after developing human capabilities (literacy and education) and employment.

The official unemployment rate rose slightly in 2001/02, to 9.9 per cent (9.3 per cent the year before), but these figures probably underestimate joblessness, considered a major problem. Job-seekers increase by between 500 000 and 700 000 every year but few jobs are created, steadily pushing up the labour surplus, especially among new graduates. Of the estimated 20.2 million people in the workforce in 2002 (6.9 million in the informal private sector and 5.1 million in the formal private sector), the government employs 5.3 million and state-owned firms, 900 000. In 2002/03, female participation in the workforce was just 25 per cent, and just 1.8 per cent in Dar el Salam, the poorest town in Sohag province.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

Though only 3.8 per cent of the national budget in 2002/03 was spent on health, indicators have been rapidly improving in recent years. Life expectancy rose from 56 years in 1980 to over 68 in 2002, while infant mortality fell from 120 per 1 000 live births to 31.4, mostly due to introduction in 2002 of oral rehydration which sharply cut deaths from diarrhoea. Nearly all children are vaccinated but healthcare is more available in towns and for the wealthy, though population pressure causes hospital overcrowding. The government is the main provider and funder of health services.

Egypt has notably improved its higher education enrolment rate and there were over a million students at 12 universities and 20 campuses in 2000, in line with government policy of admitting all secondary school graduates. Education is free and universal. Primary enrolment topped 99 per cent in 2002 but beyond this basic education, enrolment rates are closely linked to standards of living, poverty, regional differences and gender disparity.

Enrolment of girls is low at secondary and university levels (23.5 per cent in 2001) and in the 12-15 age group female illiteracy is twice that of boys. Egypt will have to improve educational quality. The fast-rising population exerts constant pressure on state-run schools (in terms of classroom overcrowding and teaching quality) and families spend a lot of money on private tuition. The private sector accounts for 7 per cent of basic, 22 per cent of secondary and 20 per cent of university education. Koranic schools, supervised by Al Azhar University, provide 8.2 per cent of primary and secondary education and 13 per cent of higher education.



© AfDB/OECD 2004 

An OECD Browse_it Edition • Read Only • Lecture seule

# Ethiopia

**key figures**

- Land area, thousands of km² 1 104
- Population, thousands (2002) 68 961
- GDP per capita, $ (2001/2002) 88
- Life expectancy (2000-2005) 45.5
- Illiteracy rate (2002) 58.5

An OECD Browse_it Edition • Read Only • Lecture seule

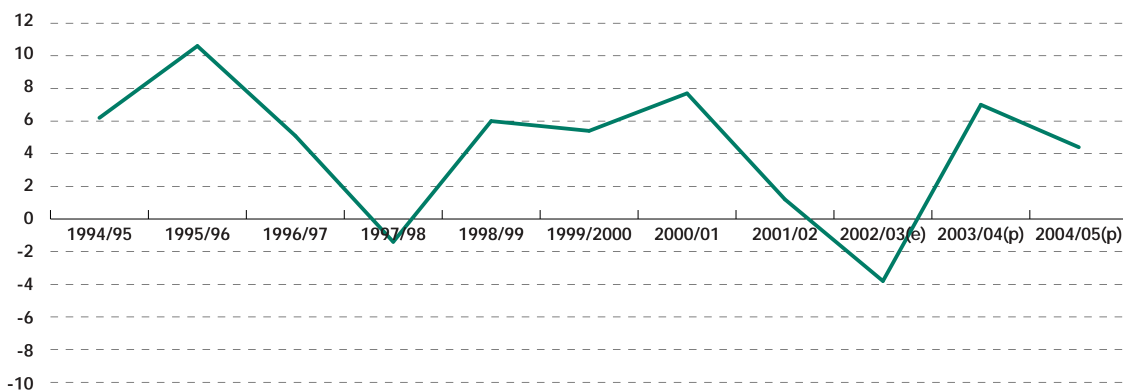
# Ethiopia

ETHIOPIA'S DIFFICULT FOOD SITUATION was aggravated by drought in 2002/03, described as the worst since 1998/99. As a result, real GDP growth was recorded at –3.8 per cent in 2002/03, compounding the pervasive poverty in the country. In 2002/03, about 12.6 million Ethiopians needed food assistance to survive, compared with about 5 million people needing food aid in a normal year. Although real GDP is estimated to rise by 7 per cent in 2003/04, the food situation will remain precarious, with an estimated 7 million people still requiring food assistance. Real GDP growth should remain positive at a projected 4.4 per cent in 2004/05. In spite of the difficult environment, the government has maintained prudent economic policies, and, with strong donor support, has continued to increase spending on poverty-related activities. However, the stability of economic fundamentals will continue to depend heavily on international support. The government has maintained structural reform efforts and continues to implement measures to strengthen the economy. Nonetheless, several drawbacks to an efficient and competitive private sector remain. In the energy sector, Ethiopia has both short and long-term plans to develop energy management, and increase general access to modern forms of energy, which is currently very low. Relations with its neighbours have improved markedly since the end of its border conflict with Eritrea. However, democracy in the country is struggling amid widespread accusations by opposition groups of government intimidation. Furthermore, the federal unity is challenged by considerable rebel activity. These situations require the government to tackle fundamental problems in a bid for sustained peace, which is needed to confront pervasive poverty, support a health system unable to cope with the growing needs of the population, and reform an educational system still offering one of the lowest enrolment and literacy levels in sub-Saharan Africa.

**Real GDP is estimated to rise by 7 per cent in 2003/04, but the food situation will remain precarious.**



Figure 1 - **Real GDP Growth**



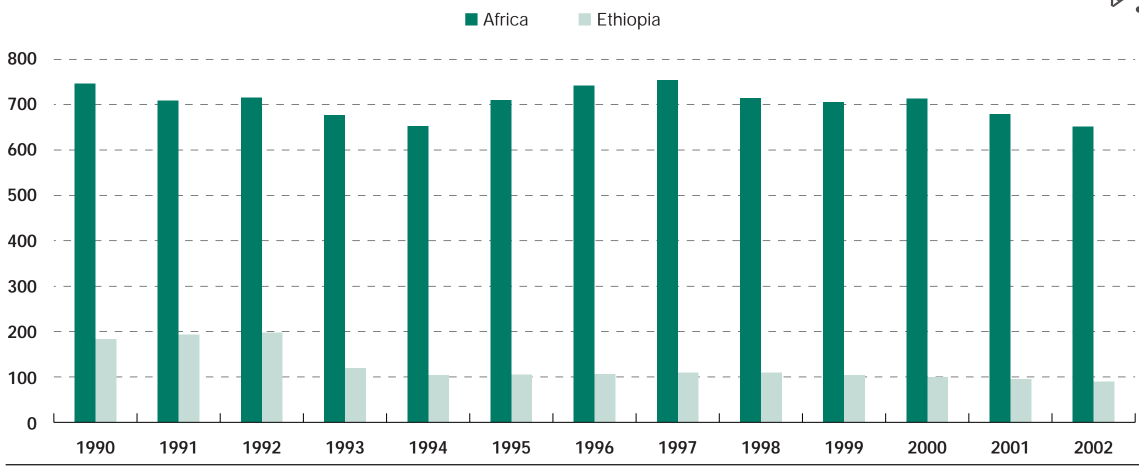

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

## Recent Economic Developments

Ethiopia is pursuing an economic programme designed in the context of a medium-term framework for 2001/02-2003/04. The objective of the programme was to achieve an annual real GDP growth of 6 per cent. However, the country's economic performance in the last two years has been affected by severe drought. In 2002/03, real GDP growth was -3.8 per cent following the low growth of 1.2 per cent achieved the preceding

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

year. Economic activity is expected to resurge in 2003/04 however, when real GDP growth is estimated to reach 7 per cent. This estimation assumes improved weather conditions and the resumption of normal agricultural activity. Economic growth is projected to moderate to 4.4 per cent in 2004/05.

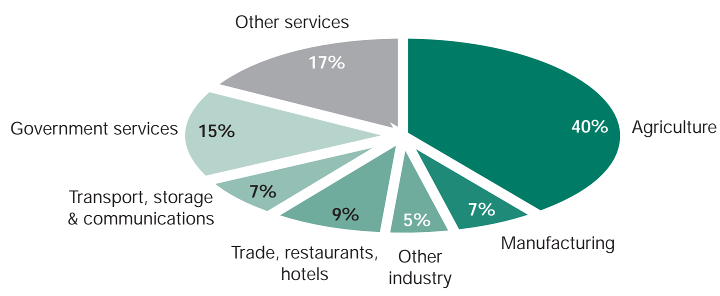


In sharp contrast to the bumper harvest achieved in 2000/01 and the relatively strong growth of 4.5 per cent the following year, agricultural production in 2002/03 was severely affected by drought. Consequently, agricultural output declined by 12 per cent in 2002/03, compared with the annual average growth rate of 2.5 per cent during 1991/92-2001/02. Indeed, the share of agriculture in total GDP shrank to nearly 40 per cent in 2002/03 from 43 per cent the previous year. The normal two rainy seasons failed in about 80 per cent of the country during 2002/03. As a result, grain production in particular was severely affected. The production of cereals, pulses and other food crops in 2002/03 was estimated at 7.6 million tons, which was 25 per cent below the 2001/02 harvest and 21 per cent below the five-year annual average. Similarly, due to the drought, livestock production fell by 6 per cent, while coffee output also fell by 8 per cent in 2002/03. The drought and the resulting severe decline in the cereal harvest left an estimated 12.6 million (about 20 per cent of the population) Ethiopians in need of food assistance in 2002/03, compared with about 5 million people in a normal crop year. In response to this dire situation, the government is implementing both short and long-term agricultural measures to ensure food security. In the short term, the government has increased budgetary allocations for food purchases and water harvesting schemes. In 2003/04, about 1.2 billion *birr* (ETB) ($140 million, 1.8 per cent of GDP) has been allocated to purchase local food (100 000 tons) and for water harvesting. In the water harvesting schemes, about 200 000 households are expected to benefit from water catchment and storage facilities supplied by the government. In the medium term, the government plans to develop irrigation schemes and to continue its resettlement programme. In addition, the government is taking steps to improve the competitiveness and efficiency of the fertiliser market, including provisions for flexible access to foreign exchange for fertiliser imports, withdrawal of the agricultural extension service from input distribution and input credit management, strengthening of farmers' co-operatives to replace regional governments in administering fertiliser credit, and a reduction in the up-front financing requirements for importing fertiliser. Nonetheless, the effect of the drought in 2002/03 continues to loom large on agricultural output in 2003/04. Available information suggests that while agricultural performance may improve in 2003/04, the improvement will not be sufficient to avert a continuing food crisis. Estimates for agricultural production in 2003/04 put the output of cereals, pulses and other crops at 8.7 million tons,

 © AfDB/OECD 2004

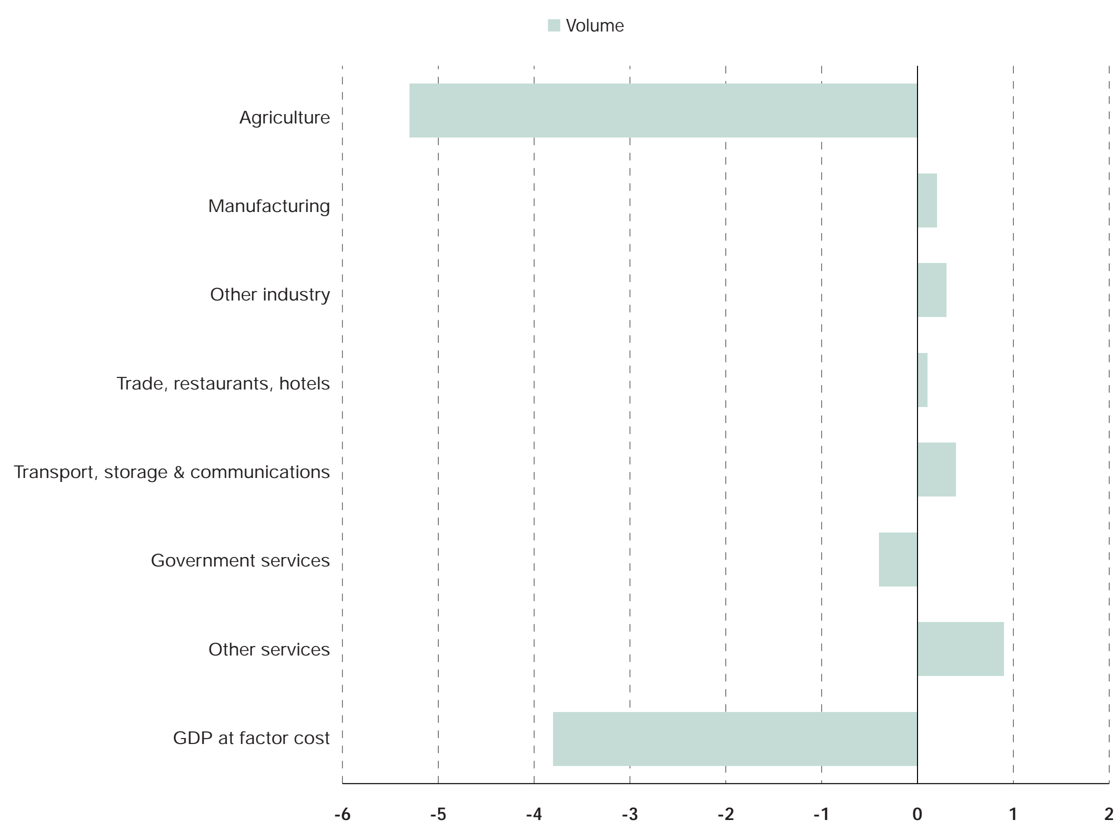
OECD Browse_it Edition • Lecture seule • Read Only • An OECD


## Figure 3 - GDP By Sector in 2002/03




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

## Figure 4 - Sectoral Contributions to Real GDP Growth, 2002/03




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

which is 17 per cent higher than in 2002/03 but 1.1 per cent lower than the average over the last seven years. The estimate of food-crop production translates into food deficits of about 2.2 million tons for 2003/04, less than those experienced in 2002/03 (3.4 million tons), but similar to the deficits experienced in 1997/98. Thus, the overall humanitarian needs for 2003/04 are reduced significantly when compared with 2002/03. According to the World Food Programme (WFP) however, about 980 000 tons of food aid will still be needed in 2004 to feed the nearly 7 million people still requiring food aid.

OECD Browse_it Edition • Read Only • Lecture seule

While the agricultural sector was directly affected by the drought in 2002/03, the resulting water shortage significantly impacted on other sectors as well. For most of 2002/03, Ethiopia's ability to generate hydroelectricity was drastically affected, causing electric power rationing throughout the country. Also, the poor performance of agriculture affected the agro-processing industry. The industrial sector's share of GDP rose from about 10 per cent in 2001/02 to about 12 per cent in 2002/03 due to the large contraction in agriculture, even though the industrial growth rate fell from 5.8 per cent in 2001/02 to 4.9 per cent in 2002/03. A rise in mining and quarrying outputs was the sole source of growth in industrial output in 2002/03, as manufacturing, electricity and construction activities all slowed down compared to their performances in the preceding year and electricity output declined. In manufacturing, the reduction in electricity due to the drought took the biggest toll on small industries, where the growth rate in 2002/03 at 0.5 per cent was less than half the rate in the preceding year. Large and medium-scale manufacturing enterprises, which contribute about 88 per cent of manufacturing value-added, maintained a growth rate of 5 per cent in 2002/03 backed by their ability to obtain power from their own generators.

The service sector remained dominant in total GDP with its share increasing to 48 per cent in 2002/03 from 45.8 per cent in 2001/02. Growth in the services sector was slower however at 2.3 per cent in 2002/03 compared with 4.5 per cent in 2001/02. In 2002/03, the distributive services (trade, hotels and restaurants, transport and communication) accounted for about 16 per cent of GDP, while other services contributed about 32 per cent. The main engines of growth in the services sector during 2002/03 were transportation, communication and social services (education and health). The government has continued to divert resources from defence expenditure to social services since the end of the border conflict with Eritrea. Education services expanded by 10.1 per cent in 2002/03, while health services rose by about 8 per cent.



Table 1 - **Demand Composition** (percentage of GDP)

| | 1995/96 | 1999 /2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **16.9** | **15.9** | **17.8** | **20.5** | **22.2** | **22.1** | **22.4** |
| Public | 7.5 | 5.2 | 8.5 | 9.2 | 11.5 | 11.7 | 12.1 |
| Private | 9.4 | 10.7 | 9.3 | 11.3 | 10.7 | 10.4 | 10.4 |
| **Consumption** | **93.0** | **99.1** | **97.4** | **98.2** | **102.1** | **103.4** | **103.2** |
| Public | 11.2 | 23.8 | 20.1 | 22.4 | 22.6 | 21.9 | 21.7 |
| Private | 81.8 | 75.3 | 77.3 | 75.8 | 79.5 | 81.5 | 81.5 |
| **External sector** | **-9.9** | **-14.9** | **-15.1** | **-18.7** | **-24.3** | **-25.5** | **-25.7** |
| Exports | 13.1 | 15.1 | 14.7 | 15.5 | 15.2 | 15.3 | 15.1 |
| Imports | -23.0 | -30.0 | -29.9 | -34.2 | -39.5 | -40.8 | -40.8 |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

The expenditure composition of GDP shows a significant rise in total consumption in GDP in 2002/03 resulting from a rise in both public and private consumption. The rise in public consumption reflected the government's increased activities in the social sector. The rise in consumption was enabled by the significant rise in imports supported by massive foreign assistance during the year. The GDP demand composition structure is expected to be maintained into 2004/05. The downside of this structure, which shows that structurally domestic saving is close to zero, is that Ethiopia's heavy dependence on foreign aid will continue into the foreseeable future.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Ethiopia's current fiscal policy objective is to achieve public debt sustainability and maximise the efficient use of highly concessional resources for poverty-



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule •



reduction related activities. Within the government's medium-term economic programme, fiscal policy stresses two main objectives: *(i)* the re-orientation of budgetary resources away from defence towards poverty alleviation outlays; and *(ii)* tax reforms aimed at improving revenue performance. However, the government's recent fiscal activities, to a large extent, continue to highlight the significance of donor support. In 2002/03, the overall fiscal deficit increased to 8.3 per cent of GDP from 7.3 per cent the year before. However, excluding grants, the deficit was estimated to have widened from 12 per cent of GDP in 2001/02 to 16.3 per cent of GDP in 2002/03, reflecting emergency assistance grants equivalent to about 5 per cent of GDP and highlighting the significant impact of donor grants on the budget. The government's fiscal activities should help to stabilise the overall fiscal deficit in 2003/04 and 2004/05, albeit at a higher level than in 2002/03. The overall fiscal deficit is estimated to rise to 9.7 per cent of GDP in 2003/04 following a significant reduction in grants as the food crisis subsides relative to 2002/03. The overall deficit is projected at 9.4 per cent of GDP in 2004/05.

In spite of the difficult macroeconomic situation of the past two years, the government has continued with efforts to enhance domestic revenue mobilisation and pursue prudent public expenditure management. Several tax measures were implemented in 2002/03 to promote revenue mobilisation, including the introduction of VAT. Efforts were also made to improve tax administration and collection, including the strengthening of the large taxpayer unit, which accounted for about 75 per cent of total tax revenues, and to enhance the activities of the tax reform taskforce. As a result, total tax revenue rose to the equivalent of about 15 per cent of GDP in 2002/03. Tax revenue is estimated to be maintained at this rate in 2003/04 and 2004/05. This stability will be backed by the full-year implementation of VAT in 2003/04, as well as the ongoing implementation of tax reform measures. In addition, measures are being pursued to collect tax arrears, such as empowering enforcement and special units to deal with arrears, which are expected to be enhanced by the computerisation of tax identification numbers (TIN).

On the expenditure side, the emergency situation over the last two years placed considerable strain on expenditure management. Nonetheless, prudence in expenditure management and increased inflows are enabling the government to increase poverty-reduction spending on social services, especially education and health, and in other areas including roads and agriculture. In 2002/03, real expenditure on road improvements increased by nearly 40 per cent, while that on agriculture rose by about 33 per cent. In particular, the government has maintained a reduced rate of increase in defence expenditures since the end of its war with Eritrea. Defence expenditure growth was –2.7 per cent in 2002/03, the lowest rate of growth for over a decade. Total government expenditure (including special programmes) increased



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

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[b] | **21.3** | **21.2** | **24.4** | **24.9** | **28.8** | **27.4** | **27.6** |
| Tax revenue | 12.5 | 11.5 | 13.7 | 15.3 | 15.2 | 15.2 | 15.2 |
| Grants | 2.9 | 2.9 | 4.8 | 4.7 | 8.3 | 6.9 | 7.0 |
| **Total expenditure and net lending**[b] | **26.9** | **30.8** | **27.9** | **35.0** | **37.5** | **37.2** | **37.0** |
| Current expenditure | 14.7 | 23.6 | 17.4 | 21.3 | 24.8 | 24.3 | 24.2 |
| *Excluding interest* | *12.3* | *21.3* | *15.4* | *19.4* | *22.5* | *22.0* | *21.9* |
| Wages and salaries | 5.5 | 6.6 | 6.6 | 8.0 | 7.3 | 6.9 | 6.8 |
| Interest on public debt | 2.4 | 2.3 | 2.0 | 1.9 | 2.2 | 2.3 | 2.4 |
| Capital expenditure | 9.4 | 7.2 | 9.8 | 11.9 | 11.6 | 11.8 | 12.1 |
| **Primary balance** | **-3.2** | **-7.3** | **-1.5** | **-8.2** | **-6.5** | **-7.4** | **-7.0** |
| **Overall balance** | **-5.6** | **-9.6** | **-3.5** | **-10.1** | **-8.7** | **-9.7** | **-9.4** |

a. Fiscal year begins 1 July.
b. Only major items are reported
**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

OECD Browse_it Edition • Read Only • Lecture seule

to 37.5 per cent of GDP in 2002/03 from 35 per cent of GDP the year before. This increase largely reflected the high level of food aid received. Inflows, which were higher than expected due to grants, enabled the government to adopt a supplementary budget for 2002/03 in May 2003, increasing government spending by about 1.1 per cent of GDP.

In 2003/04, the government emphasised its determination to maintain prudence in expenditure management. To that effect, measures include a comprehensive public expenditure management and fiscal decentralisation programme. Since this programme began in 2002, significant headway has been made. In 2002/03 the government decentralised fiscal powers to the *woradas* (districts) of the four largest regions. However, the implementation of the *worada*-decentralisation process has further strained the public expenditure management system and its ability to track poverty-reduction spending. In particular, fiscal reporting, which was already subject to considerable delay, has lagged further behind in some regions, endangering efforts to report on consolidated budget out turns. Also, the additional administrative requirements and staffing needs of the new system have put further pressures on the system, as the *woradas* have found it difficult to attract suitably qualified individuals. These difficulties place additional responsibilities on the government to guide the regions in implementing the decentralisation process. The government is committed to ensuring adequate fiscal reporting from the *woradas* to strengthen the budget management programme. Other measures being pursued in 2003/04 to enhance fiscal discipline include the consolidation of federal and regional budgets. Also, measures have been put in place to improve the effectiveness, reporting and monitoring of local government expenditure. The successful implementation of these measures will enable the government to maintain stability in its total expenditure at the estimated level of 37.2 per cent of GDP in 2003/04 and at 37 per cent of GDP the following year.

Monetary policy is focused on achieving stability in domestic prices and increasing external reserves. In 2002/03, attention was focused on sterilising excess liquidity and moving towards allowing greater market determination of the exchange rate of the *birr* (ETB). A tighter monetary policy stance reduced the growth of broad money supply (M2) to 11.3 per cent from 12.3 per cent in the preceding year. Reflecting the weak economic activity in 2002/03 and the decision of the Commercial Bank of Ethiopia (CBE), the leading bank in the country, to stop lending to all institutions with non-performing loans, total credit to the private sector increased by only 4.8 per cent in 2002/03, compared with 7.1 per cent in 2001/02. Increased credit to the government was maintained at 3.1 per cent in 2002/03.

The foreign exchange rate of the *birr* is now market-determined, with an inter-bank foreign exchange market in operation. Similarly, all interest rates are market-determined, with the exception of the savings deposit rate set at 3 per cent. The nominal value of the *birr* depreciated marginally in 2002/03 against the US dollar to reach ETB 8.6 per one US dollar at end-April 2003. Ethiopia experienced a fall in consumer prices in 2001 and 2002 as a result of improved agricultural production in these years coupled with the availability of food aid. However, inflation reappeared in 2002/03, rising to 14.6 per cent, from –7.2 per cent in 2001/02, mainly because of food shortages. Inflation is expected to moderate, with the rate of inflation estimated to fall to about 4.2 per cent in 2003/04, and down to an historically low level of 2.3 per cent in 2004/05.

### External Position

Ethiopia continues to make progress towards liberalising its external trade to enhance its participation in the global economy, which remains very low, even by sub-Saharan African standards. The government's ongoing trade liberalisation policies are set within the framework of COMESA. Following the government's own study on effective protection in 2002, the average import tariff was reduced from 19.5 per cent to 17.5 per cent in 2003. At the same time, the number of tariff bands was also reduced from 7 to 6. The government is committed to addressing a number of identified restrictions that continue to hamper free trade. These restrictions include: *a)* the tax certification requirement for repatriation of investment income; *b)* restrictions on repayments of legally-contracted external loans and supplies, and





© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • An OECD Lectures



foreign partners' credits; *c)* rules for the issue of import permits; and *d)* the requirement to provide a clearance certificate from the National Bank of Ethiopia (NBE) to obtain import permits.

The external payments situation has remained stable, primarily due to donor inflows. The current account deficit was about 6 per cent of GDP in 2002/03. The impact of donor inflows on the current account is demonstrated by the fact that in 2002/03, without such inflows, the deficit would have been about 15.2 per cent of GDP. The outlook on the external payments situation is that Ethiopia will only be able to maintain stability in its current account with substantial donor support, as the trade deficit is expected to widen significantly in 2003/04 and 2004/05.

The merchandise export sector is dominated by agricultural products, with coffee, qat, oilseed, pulses and horticultural products being the most important. The total value of merchandise exports increased to $468 million (7.4 per cent of GDP) in 2002/03, from $431 million (7.1 per cent of GDP) in 2001/02. The value of coffee exports declined in 2002/03 to $142 million from $158 million in the preceding year. The decline was due to falls in both volume and price. The decline was offset however, by robust growth in other merchandise exports, including gold, qat and leather. The service export sector, which is comparable in size to the merchandise exports sector, is principally based on transportation and related activities. It has grown steadily over the past decade, as Addis Ababa has become a regional capital for international organisations, conferences, and an airline transportation hub. Total imports of goods increased to 31.1 per cent of GDP in 2002/03 from 28.1 per cent of GDP in 2001/02 as a result of large-scale food imports and higher oil prices.

The total external debt stood at $5.9 billion at the end of 2002, shared between multilateral creditors (51 per cent); official bilateral creditors (46 per cent, of which 30 per cent to Paris Club creditors); and commercial creditors (2 per cent). Ethiopia reached the decision point for debt relief under the enhanced HIPC initiative in November 2001. Earlier in March 2001, Ethiopia had received supplementary debt relief commitments from the Paris Club of official donors. Bilateral agreements were concluded with its Paris Club creditors following meetings in April 2002. The annual savings of Ethiopia's debt relief under the enhanced HIPC arrangements will average about $96 million per year over the next three decades. This relief halved the debt service ratio of the country to about 7 per cent in 2003, from about 16 per cent in 2001; the debt service ratio is expected to fall below 4 per cent by the end of 2021. However, the point of completion, which was scheduled to be reached by the end of 2003, is now expected sometime in 2004, as Ethiopia needs more time to meet various targets. The government is concerned with the sustainability of its external debt under the enhanced HIPC agreements, which it hopes its creditors will address at the time of its completion point. Ethiopia's own estimates suggest that due to exogenous factors the net present value (NPV) of the debt-to-export ratio has risen sharply since the HIPC decision point in November 2001. These estimates indicate that the NPV of the debt-to-export ratio will rise to well over 200 per cent in 2003/04, which, according to the

Table 3 - **Current Account** (percentage of GDP)

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| Trade Balance | -12.2 | -17.2 | -17.4 | -20.9 | -23.7 | -24.7 | -24.5 |
| Exports of goods (f.o.b) | 6.9 | 7.4 | 6.9 | 7.1 | 7.4 | 7.4 | 7.5 |
| Imports of goods (f.o.b) | -19.1 | -24.7 | -24.3 | -28.1 | -31.1 | -32.1 | -32.1 |
| Services | 2.2 | 2.3 | 2.1 | 2.5 | | | |
| Factor income | -0.7 | -0.9 | -0.9 | -0.7 | | | |
| Current transfers | 11.0 | 10.7 | 11.9 | 13.0 | | | |
| **Current account balance** | **0.3** | **-5.1** | **-4.3** | **-6.1** | | | |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

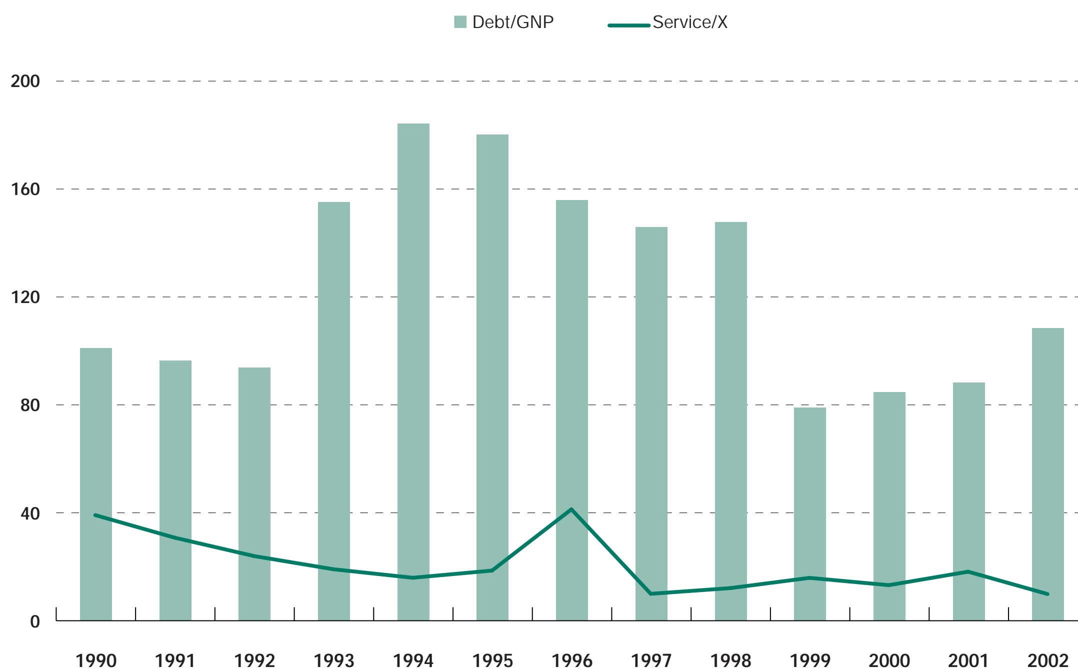


© AfDB/OECD 2004

government, should give Ethiopia more relief. Ethiopia is also making progress in bilateral negotiations with non-Paris-Club creditors, with whom it is seeking debt-rescheduling on terms at least comparable to those given by the Paris Club. External debt management policies restrict new borrowing to concessional credits. The government is also committed to the policy that the public sector neither contract nor guarantee any new loans on non-concessional terms. This policy, however, excludes new debt incurred by Ethiopian Airways. In addition, the government is committed to not accumulating any external arrears at any time.

OECD Browse_it Edition • Read Only • Lecture seule

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

Efforts at structural reforms have been maintained since 1992. Particularly since the end of the border conflict with Eritrea in December 2000, considerable progress has been made towards institutional reforms. The government's ongoing reform programme focuses on six main areas: civil service reform; capacity building in key ministries, the judicial system, and at regional and district levels; agricultural reform, to improve the efficiency of the agricultural-input market; legal and regulatory reform; the restructuring of utilities; and the privatisation of parastatals. In addition, the drought in the last two years has encouraged further reforms to ensure food security. The government has made progress in promoting private-sector participation in the economy. In 2003, a new investment code was enacted to make the economy more investor-friendly. The burden of business licensing requirements was reduced; access to land was facilitated through land leasing; and the private-public consultative process was strengthened. However, the response to these measures in terms of investment flows remains muted as Ethiopia has not recently derived any major foreign private investment.

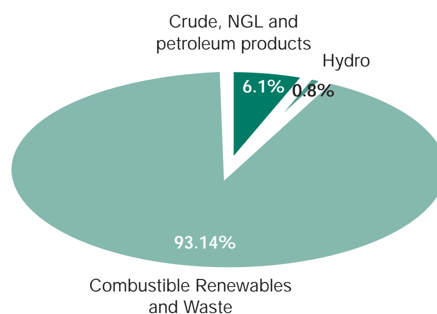
The national energy policy is aimed at strengthening the sector through the indigenous, balanced and equitable development of alternative energy resources, such as hydro, geothermal, natural gas and coal energies. In addition, the policy envisages institutional reform



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • An OECD Lecture Seule

Figure 7 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

and technical capacity building to develop the regulatory capabilities of the government, build national capabilities in engineering, construction, operation and maintenance, and gradually enhance local capabilities to manufacture electrical equipment and appliances. The government has developed a Five Year Development Programme (2001-2005), to guide its activities in the energy sector. In the longer term, the government also has a 25-year plan to develop energy management to meet the needs of the country. The Ministry of Rural Development and the Ministry of Infrastructure Development are the federal bodies responsible for the energy sector. A draft proclamation is currently being discussed to merge both ministries.

Energy consumption is very low, with an estimated total per capita consumption of only about 0.2 TOE. Energy consumption relies heavily on biomass sources, which constitute about 93 per cent of the total. However, in the last few years there has been a major increase in the demand for petroleum, as well as electricity. This has reduced the share of biomass in the total energy demand from 93 per cent in 1997 to about 90 per cent in 2002. Most households use energy with high wastage due to lack of skill and appropriate technology dissemination for energy-saving fuel mechanisms. Consequently, this has contributed to deforestation and the degradation of natural resources. From 1992-2002, the annual average growth rate in energy demand was estimated at 3 per cent. Over the same period, the demand for petroleum products grew by an annual average rate of 7.9 per cent, while those of electricity and biomass grew by 8.7 per cent and 2.6 per cent respectively.

The national economic policy requires that existing electric power generation facilities remain under government holding. However, the government has created enabling conditions for joint-ownership in large investments, and technological inputs to develop available energy resources. With this view, the policy acknowledges the positive role of private investors (individually or in partnership) in generating electric power and/or in providing customer service. However, the role played by private investors in the electricity sector is quite limited. The Ethiopian Electricity Agency (EEA), a governmental body, issues licenses, sets standards, and controls and establishes the principles of third party access to the grid to facilitate private investment. Currently, the EEA allows private investors to participate in generating an electrical energy supply with a capacity of up to 25 MW for domestic investors and above 25 MW for foreign investors. The EEA also allows the use of diesel, coal, gas, hydro and other sources of energy, and provides duty and profit tax exemptions. The government has adopted a two-track strategy comprising grid extension and isolated electrification by the private sector with an objective of improving rural access to electricity.

This strategy is in response to the fact that access to electricity is extremely limited, restricted mainly to urban centres, and reaches only about one per cent of the population (600 000 clients in 350 towns) within

OECD Browse_it Edition • Read Only • Lecture seule

a 100 km radius of the capital. The current situation exists despite the great potential capability to produce about 160 000 GWh of hydropower per year. Currently, only about 2 000 GWh of electric power is generated each year, for an installed power capacity of about 750 MW, to be increased after completion of ongoing facility developments. This is made up of an interconnected system (ICS), which accounts for about 98 per cent of the total supply, and a self-contained system (SCS) responsible for the remaining 2 per cent. Electricity through the ICS is generated through hydropower (93 per cent) and thermal (7 per cent). The SCS has a total of 45 diesel and 3 mini hydro plants.

Measures to strengthen the banking system and improve the competitiveness of the financial sector continue to be implemented. A major drawback to competitiveness in the sector remains the continued non-entry of foreign banks. The government's position continues to prioritise strengthening the financial sector and enhancing the supervisory capacity of the central bank – the National Bank of Ethiopia (NBE). In August 2002, the authorities adopted a new directive for the provisioning of banks for non-performing loans (NPLs) and troubled debt in line with international best practices. Full implementation of these measures began in January 2004. In 2003 the government took steps to strengthen the NBE by undertaking a comprehensive study of the bank. The government also committed itself to revising the Banking Act, in order to increase the autonomy of the NBE. The Commercial Bank of Ethiopia (CBE) still dominates the financial market with over 80 per cent of bank deposits and about 60 per cent of bank loans. This dominance continues to undermine efficiency in the financial sector. An independent audit of the CBE was carried out in 2003, and the authorities agreed to adopt and implement a detailed financial restructuring plan for the bank. The plan establishes a clear time frame for reducing the NPL of the CBE, estimated at 59 per cent of total loans at end-2002, to 20 per cent, and also for raising the capital adequacy ratio, estimated at 8.3 per cent at the end of 2002, to 10 per cent by June 2004. Similarly, the government is restructuring other financial entities. The Construction and Business Bank (CBB) was brought to the point of sale, by floating 100 per cent of its shares to the Ethiopian public. However, due to the lack of audited accounts, the offer was withdrawn. The government resolved this issue, and the Bank was re-offered for sale to the public in 2003.

## Political and Social Context

Ethiopia is struggling to maintain its democracy. Since parliamentary elections were held in 2002, the opposition has made accusations of harassment by the government. Local elections held in 2001 were marred by harassment in most constituencies, which led the opposition candidates to revoke their participation in the elections. In the lead up to the next general elections, concern of intensified political oppression remains rife. Furthermore, the federation continues to be troubled by considerable rebel activity, with groups such as the Ogaden National Liberation front, the Oromo Liberation Front and the Sidama Liberation Front seeking separation. While there is currently no apparent threat to the federation, the government remains obliged to tackle the fundamental political problems behind the rebel activity and to secure sustainable peace and stability. On the other hand, relations with neighbours have improved markedly since the end of the border conflict with Eritrea. Although there is still some tension, as the actual border demarcation has not been effected and normalisation of relations is yet to be achieved, peace continues to prevail due to the efforts of both countries and the UN peace mission in Ethiopia and Eritrea.

Poverty and poverty-related issues are most crucial, as the country remains one of the poorest 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, food security, even in times of good weather, is a source of anxiety as structural and persistent food insecurity affects about 5 million poor people every year. Although the majority of the people affected by food insecurity live in rural areas, food insecurity is also emerging as a growing urban problem due largely to urban unemployment. Over the last few years, other factors have made it increasingly difficult for households to manage their





© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

own food security. These include collapsing coffee prices, slumping livestock exports and the growing spectre of HIV/AIDS. The HIV/AIDS pandemic is aggravated by other poverty-related factors, such as high unemployment, increased prostitution, and the high rate of migration caused by natural devastation.

The government has positioned poverty reduction at the centre of its medium-term growth strategy, as outlined in the country's Poverty Reduction Strategy Paper (PRSP). The overriding objective is to reduce poverty while maintaining macroeconomic stability. The PRSP directly targets the poor and vulnerable by focusing development on the agricultural sector, which is the source of livelihood for 85 per cent of the population, in the hope of ensuring food security. The government has established 2005 as its target date to reduce the poverty head count ratio by about 10 per cent.

Ethiopia's health system is reeling under the weight of the population's health needs rising faster than the allocation of resources. Although the government's recent targeting of poverty-related expenditures has reflected a real per capita expenditure increase in the health sector, given the low expenditure levels of the past, reversing past trends will take longer. Real per capita expenditure, which had declined by nearly a quarter between 1998/99 and 1999/00, had risen by nearly 50 per cent by 2002. However, only about 46 per cent of the population currently has access to health coverage. There are approximately four physicians per 100 000 people; safe water reaches only 24 per cent of the population, while access to sanitation is limited to only 15 per cent of the population. Inadequate facilities, faulty equipment, and shortages of essential drugs continue to be problematic as well. The government's health strategy is focused on a Health Extension Package (HEP), a community-based health delivery system aimed at creating healthy environments as well as healthy living. The main objective of the HEP is to improve access and equity through community health services with a strong focus on sustained, preventive health actions and increased health awareness. However, the existing and newly constructed health care institutions are still too few to meet the needs of the population; some are inaccessible due to lack of roads. Additionally, fees collected by these institutions are remitted to the treasury, making it impossible for the institutions to use available resources efficiently for local problems.

The spread of HIV/AIDS, with about 10.6 per cent of the adult population HIV positive, is a major challenge to the health system. The government has adopted specific measures to tackle some of the major health problems in the country. To combat the HIV/AIDS menace, it has developed a National Response Strategic Framework to HIV/AIDS, covering the period 2002-2004. The target is to reduce the level of HIV transmission by 25 per cent in five years. Also, a multi-sectoral HIV/AIDS programme is being implemented. The government is also 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 federal, regional and district levels to monitor programme implementation. The implementation of the HEP, which started in 2002/03, has enjoyed some success. The coverage of DPT3 reached 51.5 per cent in 2002 from 27 per cent in 2001. An effort to curtail the spread of HIV/AIDS through safe-sex campaigns, specifically by distributing condoms, has increased: 50 million condoms were distributed in 2000, 57 million in 2001 and an estimated 65 million in 2002.

Ethiopia's education system offers one of the lowest enrolment and literacy rates in sub-Saharan Africa. The government has responded with a holistic plan for the expansion and development of the sector through its Education Sector Development Programme (ESDP). Under the programme, and as part of the recent targeting of poverty-related expenditure, real per capita expenditure has risen sharply. Real per capita expenditure that declined by about 6 per cent between 1998/99 and 1999/2000, rose by about 30 per cent in 2000/01, and by a further 11 per cent in 2001/02. In 2002/03, real expenditure on education increased by 10 per cent. The share of education expenditure in total GDP thus rose from 2.6 per cent in 2000/01 to 3.4 per cent in 2002/03. In response to these increases in expenditure, significant improvement in primary school enrolment has been recorded over the past four years. The

OECD Browse_it Edition • Read Only • Lecture seule

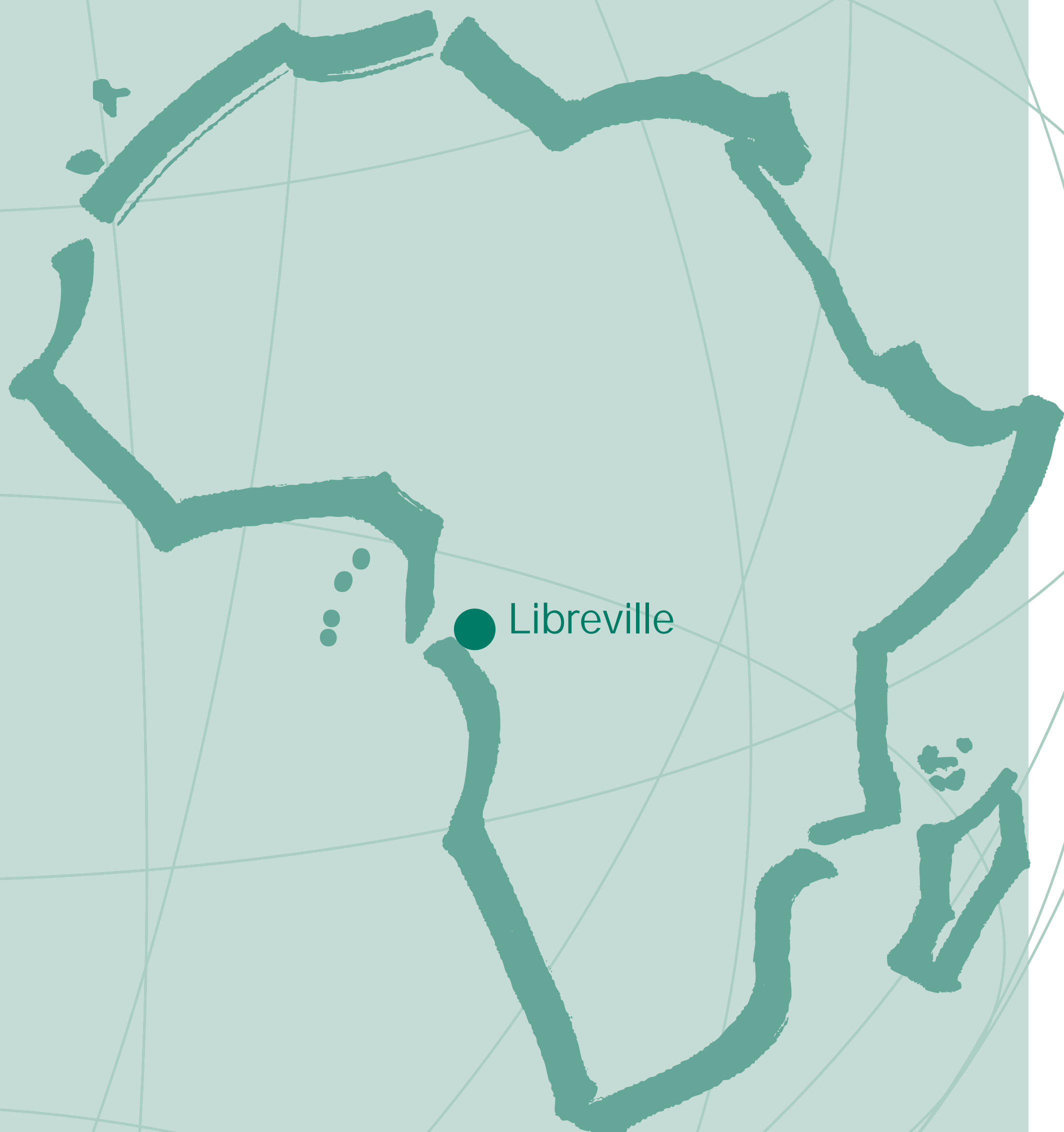
government's target under the PRSP is to achieve a gross enrolment ratio of 65 per cent with regard to primary enrolment by 2004/05, and the success achieved thus far suggests they will attain their target. The February 2001 review of the Education Sector Development Programme revealed that the net primary school enrolment ratio for girls increased from 21.5 per cent in 1996 to 36.6 per cent in 1999, while for boys the increase was from 32.3 per cent to 51.2 per cent. In addition, some success has been recorded in reducing the illiteracy rate in the country, with the total illiteracy rate falling from 61 per cent in 2000 to 58.5 per cent in 2002. 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.





© AfDB/OECD 2004

# Gabon




**key figures**

| | |
|---|---|
| • Land area, thousands of km² | 268 |
| • Population, thousands (2002) | 1 306 |
| • GDP per capita, $ (2002) | 3 791 |
| • Life expectancy (2000-2005) | 56.6 |

An OECD Browse_it Edition • Read Only • Lecture seule

# Gabon

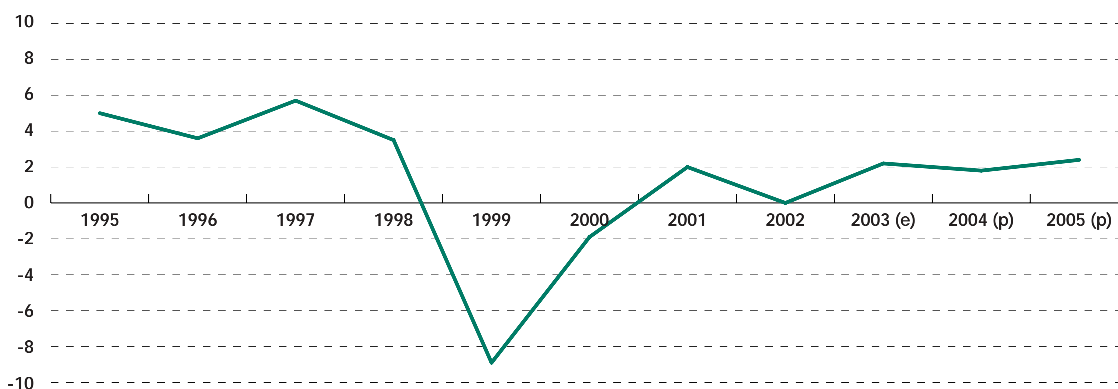
GABON HAS ENTERED A PERIOD of meagre growth, as petroleum output declines from its 1997 peak and other sectors cannot compensate. Forestry-related activities are the best bet for diversification but the sector is in crisis. Would-be investors are put off by the small local market (1.3 million inhabitants) and poor infrastructure that isolates somewhat Libreville from the rest of the sub-region, despite the advantage of political stability. The country also lacks a large enough trained labour force and is attracting more and more unskilled immigrants. However, oil production picked up in 2003 owing to an increase in further oil extraction and to new small oil field production. GDP growth was put at 2.2 per cent in 2003. It should fall slightly to 1.8 per cent in 2004 and rise again in 2005 to 2.4 per cent.

In 2004 Gabon is expected to contract a programme with the IMF and deal with debt under a Paris Club agreement, which will facilitate foreign aid. Gabon has, nevertheless, triggered a net reduction in debt since 2000 in reducing massively its external arrears. Debt relief will also involve better management of public funds, greater openness and continuing disengagement of the state. This is the country's toughest challenge amid high unemployment and growing social unrest.

**Despite an unexpected increase in oil production, the country still needs diversification and social investment.**



Figure 1 - **Real GDP Growth**




**Source:** *Direction Générale de l'Economie* data; projections based on authors' calculations.

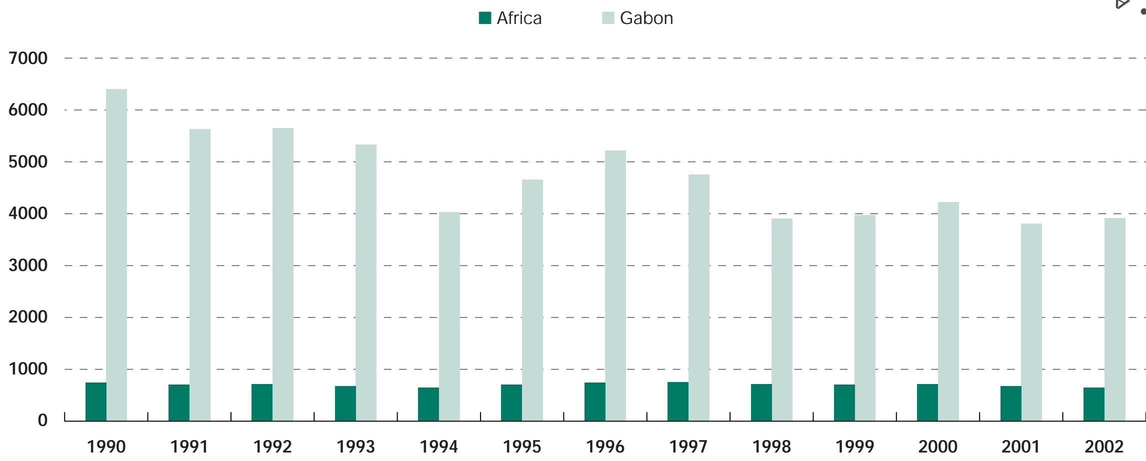
## Recent Economic Developments

The fall in petroleum output since 1997 has sent the country into a period of uncertain growth. But due to the minor contribution of non-oil sectors to GDP and their insignificant advance in 2002 (+0.2 per cent) and 2003 (estimated at +0.5 per cent), oil production (-2.3 per cent in 2002 and an estimated +6.9 per cent in 2003) remains the backbone of growth (zero in 2002 and about 2.2 per cent in 2003).

Oil production which accounted for 44.5 per cent of GDP in 2002, has many important economic offshoots and provides substantial government revenue. Such dependence is disturbing given the fall in production since its 1997 peak (corresponding to the top production year of the country's main oilfield at Rabi). Results were better in 2003 when, for the first time since 1997, oil output rose (6.9 per cent, from 12.6 to 13.4 million tonnes of crude), owing to a better rate of recovery of residual oil from mature wells (42 per cent recovered

OECD Browse_it Edition • Lecture seule • Read Only

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




**Source:** IMF.

in Rabi phase III) and the opening of small and medium-sized fields (such as Étamé and Toucan). Good world oil prices in 2003 encouraged new prospecting as well as further extraction from mature wells. But the future of oil production remains uncertain in Gabon. Inshore fields are mature, so expansion there is limited to discovering medium-size deposits. Finding a new Rabi-sized field to substantially boost national production would need deep-water exploration, which may not be carried out. Big companies such as Total and Shell are still prospecting, notably with seismic surveys, and increased investment by 40 per cent between 2000 and 2002. The government is trying to encourage exploration in new areas by offering flexible deals called technical evaluation agreements (TEAs).[1] But enthusiasm for deep-water exploration off Gabon and for prospecting in general is limited. The "bonuses" required by the government for granting exploration licences have fallen considerably compared with levels at the height of such activity in Gabon, while companies are drilling only the minimum number of wells stipulated in their licences ("incentive wells").



Timber production could be a way to diversify the economy thanks to huge forest reserves. But despite its substantial spill-overs to the rest of the economy, especially through jobs (20-30 per cent of the workforce), the sector only contributed 2 per cent of GDP in 2002. Log production has also been in crisis since 2001, falling 20.6 per cent in 2002 and an estimated 4.4 per cent in 2003, partly due to poor organisation and regulation of the sector. The state timber firm SNBG's monopoly of marketing ozigo and okume logs is criticised by the big forestry companies who say the firm's inefficiency and enormous overheads lead it to sell timber on the world market at very high prices, far above those paid to producers. They also complain about the high cost of using the ports authority (Oprag) and the railway, increased fuel prices in recent years and the difficulty in moving timber transporters. Other gripes include discouraging taxes and the uneven application of tough sustainable development clauses about felling in the 2001 forest law. The sharp increase in taxes in the 2002 budget, especially on areas being felled, sparked a tax boycott in 2002 and 2003 that was called off in early 2004. The sector's inefficiency puts it at a disadvantage in the face of strong international competition. This is compounded by the high cost of moving logs by boat and poor export prices, which fell 5 per cent because of the rise of the CFA franc against the dollar.

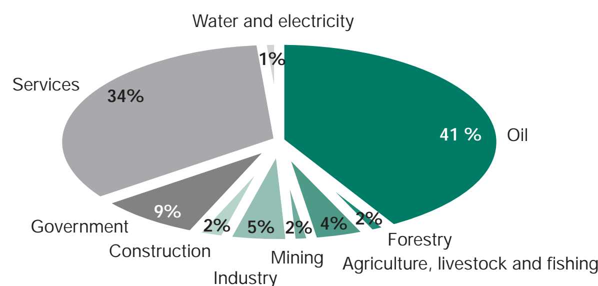
Funding agencies are pressing for the forestry sector to be restructured and at the end of 2003 the government

1. A TEA was first made with the South African energy firm SASOL and then the Chinese refinery company SINOPEC (February 2004). TEAs are signed before licences are granted and, unlike licences, do not require the payment of a "bonus".

 © AfDB/OECD 2004

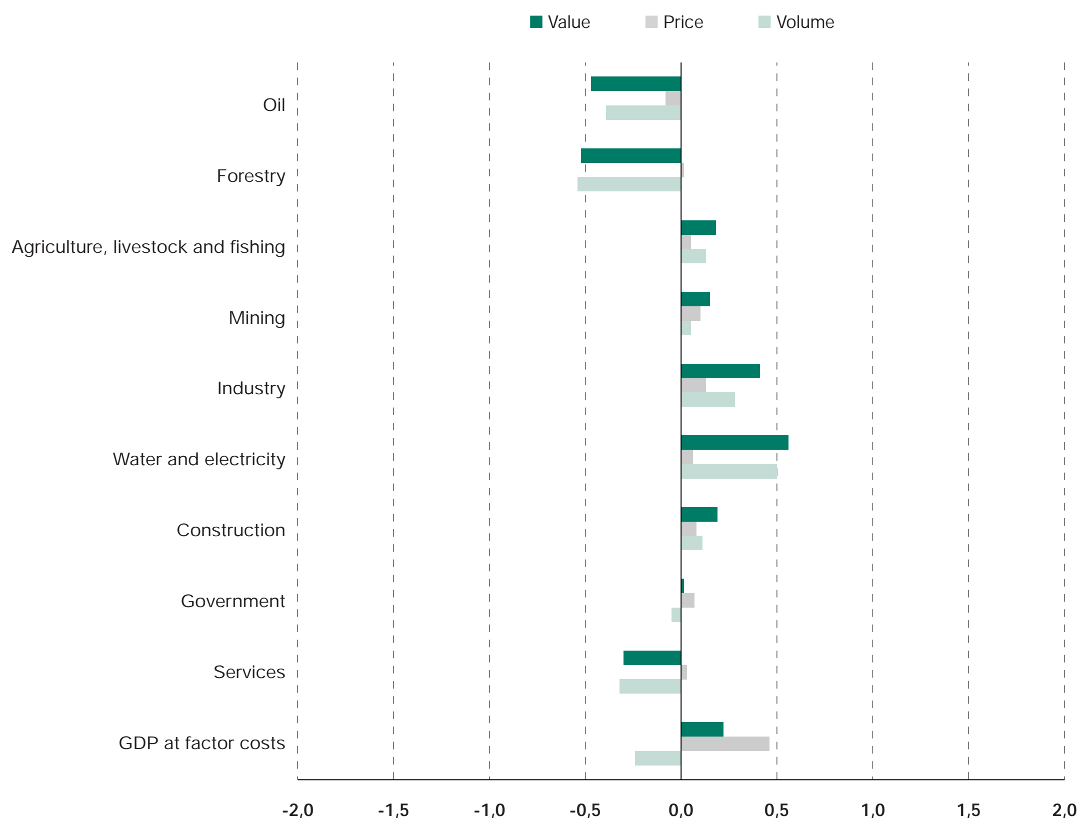
An OECD Browse_it Edition • Read Only • Lecture seule

## Figure 3 - GDP by Sector in 2002




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

## Figure 4 - Sectoral Contribution to GDP Growth in 2002




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

promised the IMF that it would audit the SNBG and the sector's costs. It is considering the conversion of the SNBG into a chamber of commerce limited to regulation (such as felling quotas) and marketing only small logging firms. The industry's crisis has obliged firms to diversify and increase their processing activities to areas with lower taxes where the SNBG's marketing monopoly can be avoided. Thus, timber peeling, unlike log production, grew 19.7 per cent in 2003.

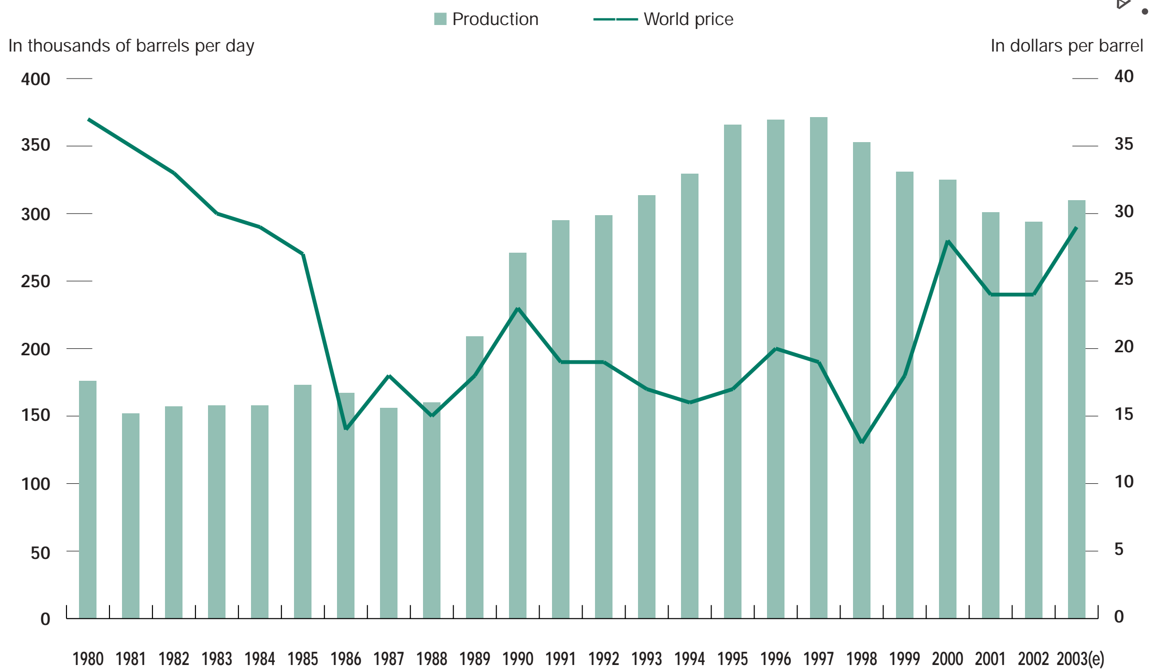
Mining (2 per cent of GDP in 2002, with estimated growth of 4.8 per cent in 2003) is another diversification possibility. Gabon has become one of the world's main manganese producers since the opening of the Moanda



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

Figure 5 - Oil Production and Prices in Gabon




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



mine and sinter plant run by Comilog (Compagnie minière de l'Ogooué). Brazilian investors are thought to be interested in mining a second deposit at Okondja, in southeastern Gabon. Extensive geological surveys have found reserves of iron, nobium and phosphates, but mining them would need heavy investment (a railway line in the case of Okondja) and would depend on world prices.

Agriculture's contribution to GDP has steadily fallen in recent decades (from 16 per cent in 1964 to 4 per cent in 2002) because of lack of interest by both government and the population since the discovery of oil. Rapid urbanisation (76.8 per cent of people lived in towns in 1999) and shortage of adult males in the countryside (83 for every 100 females, compared with 102 in towns and cities) has also meant lack of labour for expanding farmland. The country does not have a strong agricultural tradition, especially in raising cattle, and 59 per cent of food is imported. Cocoa and coffee plantations have not been looked after and vegetable production, by Agripog (Société Agricole de Port-Gentil), which has serious financial problems, is hampered by outdated equipment. The semi-state livestock companies Sogadel and Siaeb have been wound up.

The government, backed by donors, is now intervening. The companies Hévégab (rubber) and Agrogabon (palm oil) have been modernised to prepare for privatisation and IGAD, the country's development support body, is trying to increase market gardening in suburban areas. Agricultural output rose about 2.4 per cent in 2003.

Industrial development has also suffered from the focus on oil, and industry was only 9 per cent of GDP in 2002 partly because high production costs and higher profits from oil create lower incentives. Apart from timber processing, industrial activity is confined to food processing, oil refining, construction and electricity generation. Electricity is doing well (up an estimated 3.8 per cent in 2003) thanks to growing urban demand, but refining was down 4.9 per cent as a result of outdated equipment. Construction declined 15 per cent for lack of major public investment programmes and because of government financial problems (including delayed payments) creating uncertainty in the sector.

The tertiary sector was 43 per cent of GDP in 2002. It only grew an estimated 0.4 per cent in 2003, but transport and telecommunications did well (+3 per



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • An OECD Read Only


cent), with the launching of new airlines (Air Max, Avirex) taking over from Air Gabon on domestic routes, 14.1 per cent more passengers and 87 per cent more freight. A 24.4 per cent increase in mobile phone subscribers in 2003 buoyed the telecom sector. Banking and insurance grew 2.7 per cent.

The government plans to boost tourism, currently negligible despite big eco-tourism potential, with the help of external funding sources such as the European Union's Ecofac programme to promote the conservation and sustainable use of central Africa's forests. Thirteen national parks have been created. But the task is huge, given the lack of infrastructure, poor air services and high entry formalities for tourists.

Heavy petroleum-linked investment explains the over 20 per cent global investment rate (13.6 per cent for oil alone in 2002), which is very high for an African country. After forging ahead by 40.7 per cent between 2000 and 2002, oil-sector investment declined by an estimated 6.6 per cent in 2003. Oil exports also largely accounted for the positive contribution of foreign trade to GDP in 2003.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Oil production** | **45.3** | **52.9** | **45.9** | **44.5** | | | |
| **GDP excluding oil** | **60.8** | **52.7** | **59.9** | **60.2** | | | |
| **Gross capital formation** | **23.7** | **21.8** | **25.8** | **24.4** | **22.9** | **22.8** | **23.6** |
| Public | 5.5 | 2.9 | 4.7 | 4.0 | 3.9 | 4.0 | 4.2 |
| Private | 18.2 | 18.9 | 21.0 | 20.5 | 19.0 | 18.8 | 19.4 |
| **Consumption** | **52.7** | **43.8** | **50.9** | **52.3** | **54.3** | **55.3** | **56.0** |
| Public | 14.1 | 9.5 | 11.5 | 10.9 | 10.8 | 10.5 | 10.3 |
| Private | 38.6 | 34.3 | 39.4 | 41.4 | 43.5 | 44.7 | 45.8 |
| **External sector** | **23.6** | **34.3** | **23.3** | **23.3** | **22.8** | **22.0** | **20.4** |
| Exports | 57.5 | 67.0 | 59.0 | 58.0 | 57.0 | 55.5 | 54.0 |
| Imports | -33.9 | -32.6 | -35.7 | -34.7 | -34.1 | -33.5 | -33.6 |

**Source:** *Direction Générale de l'Economie* and *Direction générale de la statistique et des études économiques* data; projections based on authors' calculations.

Private investment, after rising strongly until 2001, especially in forestry and mining, fell back 2.5 per cent in 2002 and an estimated 5 per cent in 2003, partly due to uncertainty about the economy, government arrears and lower consumer demand, as well as problems in the forestry sector, whose profitability in the past had enabled investments to be quickly recouped.

Growth in 2004 should remain modest (1.8 per cent) with almost zero growth of private investment. Oil investment ought to decline again (oil prices are expected to remain steady or ease slightly in 2004 et 2005), while non-oil investment should be helped by a better business climate, especially if a confirmation agreement is signed with the IMF and the Libreville Club is established to settle internal debt.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

As a member of the Central African Economic and Monetary Community (CEMAC), Gabon has to comply with various convergence criteria. It met them all in 2003, improving on the previous year, when it had debt arrears. The basic budget balance improved with oil revenue higher than expected. Despite this good performance, inflationary pressure returned in 2003 after a stable 2002

Gabon has not had any IMF funds since 2000 – the last IMF programme could not be completed because of overspending. But talks resumed in mid-2003 and Gabon promised to keep to basic spending limits and



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[a] | **29.5** | **33.4** | **34.0** | **31.6** | **32.3** | **31.7** | **31.2** |
| Tax revenue | 10.8 | 10.4 | 11.2 | 12.4 | 12.5 | 12.5 | 12.6 |
| Oil revenue | 17.9 | 22.5 | 21.8 | 17.7 | 18.3 | 17.7 | 17.1 |
| **Total expenditure and net lending**[a] | **26.7** | **21.7** | **30.8** | **28.1** | **23.3** | **23.5** | **22.5** |
| Current expenditure | 21.2 | 18.6 | 24.9 | 19.9 | 19.4 | 19.5 | 18.3 |
| *Excluding interest* | *12.7* | *12.8* | *16.1* | *15.5* | *15.4* | *15.1* | *14.8* |
| Wages and salaries | 7.2 | 6.0 | 6.4 | 6.4 | 6.3 | 6.1 | 5.9 |
| Interest | 8.5 | 5.9 | 8.8 | 4.4 | 4.0 | 4.3 | 3.6 |
| Capital expenditure | 5.5 | 2.9 | 4.7 | 4.0 | 3.9 | 4.0 | 4.2 |
| **Primary balance** | **11.3** | **17.5** | **12.0** | **7.9** | **13.0** | **12.6** | **12.3** |
| **Overall balance** | **2.8** | **11.7** | **3.2** | **3.5** | **9.0** | **8.3** | **8.7** |

a. Only major items are reported.
**Source:** *Trésor public* data; projections based on authors' calculations.

make structural reforms under a four-month staff-monitored programme (SMP). A $90 million 15-month confirmation agreement is expected to be signed in mid-2004, leading to a longer-term extended credit programme to help cope with post-oil structural challenges.



In 2002, the overall surplus structurally high in Gabon stabilised to 3.5 per cent of GDP after a huge decrease in 2001 due to zero growth. Debt also fell sharply: 13.8 per cent of revenues went to government debt interest payments and almost 22.3 per cent to principal repayment. However, this result consistent with mutual obligations on external debt concealed budget problems that persisted in 2003 (further delay in payments to construction firms, greater internal debt arrears, and delayed scholarship payments to students). The government owes about 8 billion CFA francs ($13.6 million) to the state electricity company.

The effect of the 16.6 per cent rise in the dollar price per barrel of oil in 2003 was cancelled out for Gabon as the dollar depreciated by the same percentage. In addition, despite the unexpected 6.9 per cent increase in oil output, revenue fell by an estimated 6.3 per cent to 570.2 billion CFA francs ($973 million). Non-oil revenue was steady at 478.9 billion CFA francs ($817.5 million), which was below the budget target. The tax boycott by the forestry sector in protest against tax reforms produced a revenue shortfall of 8 billion CFA francs ($13.5 million).

Total expenditure fell in 2003 thanks to cheaper transfer costs and the absence of social costs such as those in 2002 (that accounted for 6.1 per cent of revenues), when Air Gabon was restructured and the national social security fund was bailed out. The government gave subsidies of only 18.1 billion CFA francs ($30.8 million), compared with 38.3 billion ($54.9 million) in 2002 to state-owned firms, including 12 billion CFA francs ($20.4 million) for the national post office (Gabon Poste).

The government wage bill, stable since 1995, rose by 3.9 per cent in 2003 owing to contractual regularisation in civil servants recruited in health, education and security fields and hiring for various institutions (parliament, council of state, constitutional court, national auditing board and supreme court) and new councils (economic and social council, national communications council and Republican Guard committee). The government kept up its regular external debt repayments as agreed under the interim IMF programme. Government spending fell 18.5 per cent overall.

The 2004 budget, approved by parliament in December 2003, is counting on 1.5 per cent growth, 2 per cent inflation and a stronger external position. The government plans to continue reforming public accounts by increasing revenue (especially non-oil revenue) and controlling spending, including its phone, water and electricity bills, and travel expenses for civil servants (by


© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • A Read Only

setting quotas and limits). These measures, launched in 2003, did not reduce costs much. Spending will be curbed through computerisation of the integrated spending management system with French help. The state will continue to withdraw from the productive sector. Planned privatisation of Hévégab and Agrogabon will relieve the state of nearly 4 billion CFA francs ($7 million) in current spending over a year. Current expenditure in 2004 (195.6 billion CFA francs – $341.1 million[2]) is expected to remain stable.

In 2003, in spite of a decrease in external debt internal arrears grew by between 150 and 200 billion CFA francs ($256-340 million), but the matter seems in hand, as efforts to renegotiate it with the creation of a "Libreville Club" comprising the government and an association of its creditors in early 2004. The government pledged to settle all debts presented to and acknowledged by the national treasury within four months. If successful, the new negotiation framework will enable firms to sort out their accounts and resume activities and will help fight corruption related to the debts. It is timely too because the government will soon have to raise money on the bond market when the BEAC changes its system of statutory advances.

The exchange rate in Gabon, as in other CEMAC member states, is pegged to the euro and monetary policy is in the hands of the BEAC, leaving budget policy as the main economic instrument. After being virtually zero (+0.2 per cent) in 2002, inflation was 1.8 per cent in 2003 and food and transport prices came under pressure. The importance of Gabon's imports from the dollar zone caused the price of products imported from that zone to fall with the weak dollar. In the years to 2005, inflation should be around 2 per cent. The year 2003 also saw a substantial increase in external assets through higher export earnings.

## External Position

Foreign trade is not very diversified, with 77.9 per cent of exports being petroleum, 13.5 per cent timber and 4.3 per cent manganese. In 2003, exports to the United States and Asia (mainly China) increased, while fewer went to Europe and Africa. Europe remained the source of most imports, followed by Asia, which overtook the United States. Only Asian imports increased. Cameroon is the largest African supplier especially for food goods. Gabon mostly imports machinery and equipment, followed by food and beverages and non-food consumer goods.



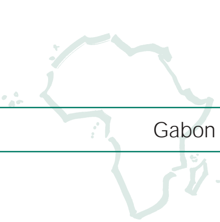
Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | 35.2 | 47.4 | 36.5 | 34.7 | 34.6 | 33.8 | 32.3 |
| Exports of goods (f.o.b.) | 53.3 | 63.2 | 55.6 | 54.5 | 54.0 | 52.6 | 51.0 |
| Imports of goods (f.o.b.) | -18.1 | -15.8 | -19.2 | -19.7 | -19.4 | -18.8 | -18.7 |
| Services | -13.6 | -13.6 | -13.7 | -11.9 | | | |
| Factor income | -14.4 | -26.7 | -21.6 | -21.2 | | | |
| Current transfers | -4.0 | -1.0 | -1.0 | -0.9 | | | |
| **Current account balance** | **3.2** | **6.2** | **0.3** | **0.7** | | | |

**Source:** *Direction Générale de l'Economie* data; projections based on authors' calculations.

Exports rose 2 per cent in 2003 to 1 866.4 billion CFA francs ($3.1 billion). After a poor year in 2002, oil revenue was up 4.8 per cent in 2003 due to 5.8 per cent greater export volumes, the low dollar having cancelled out the effects of a higher price. More disturbing for long-term diversification prospects despite a 5 per cent increase in manganese exports by volume, earnings fell 13 per cent because of a 17 per cent drop in the CFA franc price. In addition, the continuing fall in timber revenue (down 10 per cent in 2003), was mainly due to a 5 per cent drop in export prices. Customs figures, however, showed that 19 per cent more sawn logs were exported, making up for sluggish exports of logs (up only 3 per cent).

Imports fell 2 per cent to 653 billion CFA francs ($1.1 billion), with economic problems sharply reducing purchases of machinery and equipment (-23 per cent,





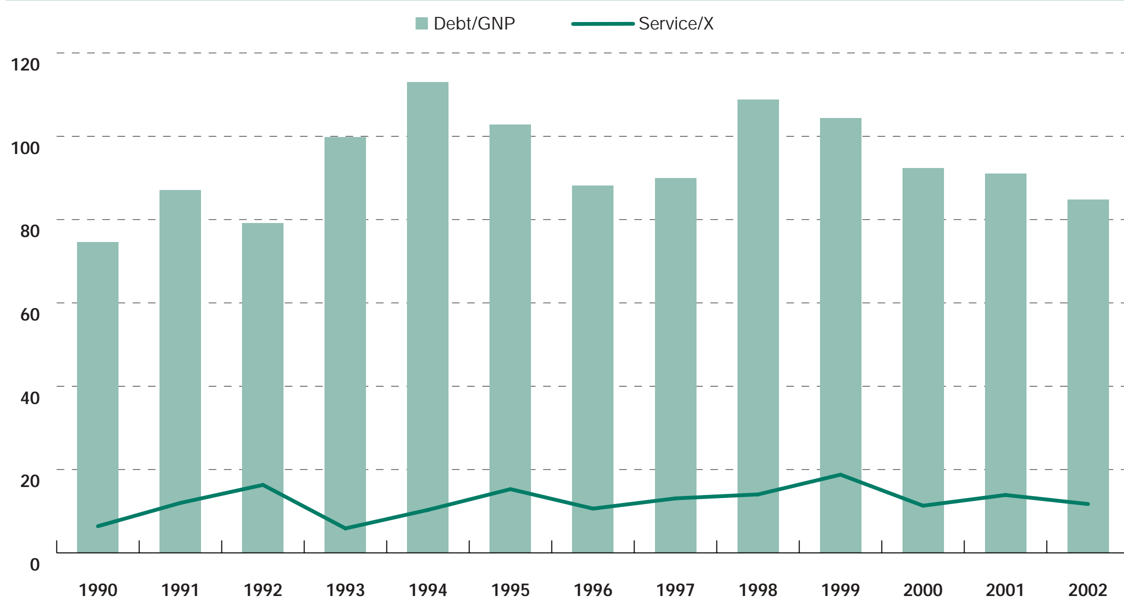
OECD Browse_it Edition • Read Only • Lecture seule

according to customs) and non-food items (-22 per cent), though vehicle imports rose 19 per cent.

Gabon has an overall trade surplus which improved in 2003 despite the dollar's fall. The trade balance was estimated at 34.6 per cent of GDP. Export/import coverage improved to 285 per cent. Without oil, there would be a trade deficit of 118.3 billion CFA francs ($201.9 million).

External debt in Gabon was sharply reduced : it accounted for $3 534 million in 2002 (84.8 per cent of GNP), 22 per cent lower compared to the highest point in 1998 where it stood at 108.8 per cent of GNP. Gabon is considered an intermediate income country and is thus only eligible for standard treatment of its debt by the Paris Club. However, a third of external debt is not renegotiable. An IMF assessment of debt sustainability in October 2003 showed the ratio of interest to budget revenue should peak at 45.5 points in 2008. This projection is based on significant growth of the non-oil sector (2.4 per cent in 2003, 3.5 per cent in 2005 and more than 4 per cent until 2010) which is slow in developing. Gabon's debt will be more tailored to long-term sustainability under the Paris Club's more flexible "Evian" approach (after the G8 summit where it was launched). But it will first have to agree to an IMF programme and seek similar arrangements with other foreign 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

The need to raise revenues and diversify the economy has obliged the continuation of structural reforms, some of which are conditions in negotiations for a confirmation agreement with the IMF.

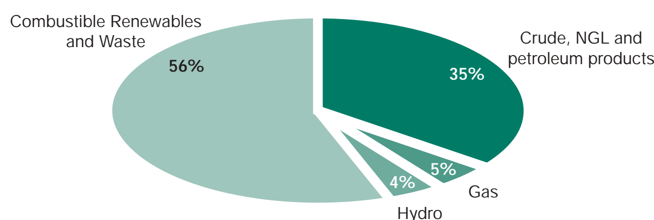
The country has a wealth of raw materials. Main energy sources are oil, gas, wood (which was the backbone of the economy before petroleum took over) and uranium (though mining of it ceased in 1999). Some of the oil is processed for local needs by the national refinery company Sogara, but refined petroleum products, especially diesel, have to be imported. Natural gas is little used and only supplied to the city where it is produced, Port Gentil, since there is as yet no pipeline to Libreville. Two-thirds of it goes to generate electricity and fuel local industry, such as breweries, and the rest is increasingly used as a cheap way to recover residual oil by injection into wells. Expansion of the gas industry



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

Figure 7 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

is held back by the limited local market and a lack of industry in Libreville.

Electricity is produced mainly by hydroelectric plants (69 per cent of national production in 2003) for the main grids, which are in Libreville and in the east and south, but not linked to each other. Hydroelectric potential is barely touched (less than 1 per cent), and current to the rest of the country is supplied by thermal plants fuelled by diesel, heavy fuel or gas. Total national capacity is 346 MW (half hydroelectric and half thermal) which produced 1 315 GWh in 2003 (3.8 per cent up on the previous year) that was distributed over 3 612 kilometres of lines. Electricity is supplied by the water and power company SEEG, which was privatised in July 1997 with a 20-year franchise (though since then the government has reduced its own holding to only one share). SEEG has a monopoly on transporting and distributing current in its franchise area, which covers the needs of 90 per cent of the population, but production is open to competition. Operating costs rose significantly between 1999 and 2001 owing to more expensive diesel, heavy fuel and gas, greater reliance on thermal plants (since hydroelectric units cannot keep up with demand) and higher distribution costs because of efforts to improve service. Rates fell 17.25 per cent in July 1997 thanks to the discount deal negotiated by the franchise winner, the Compagnie générale des Eaux (the Vivendi Environnement group, later Véolia). Later, as stipulated in the contract, rates went up at three-month intervals according to the price of fuel, local labour, imported goods and local inflation. But rates are still not as high as in 1997 and firms do not consider electricity expensive. Since there is no statutory agency, contracts are used for regulation.

SEEG pledged to meet five-year coverage targets in major towns, cities and country areas and to bring electricity to new places. The last review of coverage, in 2000, showed it had exceeded targets in Libreville (74 per cent against a goal of 73) and Port Gentil (91 per cent against 83). In the countryside, 89 per cent of isolated towns had current but none of the 30 new places set for electrification had received it, though five have been connected since then. SEEG is contracted to spend 400 billion CFA francs ($682 million) between 2004 and 2017 on water and electricity projects. This includes better distribution and linking Libreville and Port Gentil in order to make use of the natural gas and the thermal plant capacity in those cities (3 turbines of 21 MW are under-employed in the capital and one in Port Gentil). This is more expensive than expanding the capacity of the hydroelectric plants, which will last much longer than the period of the franchise, and would cost at least 100 billion CFA francs. However, it can be made to pay before the end of the franchise and is preferable to building polluting fuel-fired plants.

A major privatisation will occur in early 2004 with the joint franchising of Hévégab and Agrogabon to the Belgian group NV Siat S.A. An attempt to privatise them failed in 2000. The government put together an employee compensation package for Hévégab and modernised its production facilities. This and higher world rubber prices made the firm more attractive. The government had to spend one billion CFA francs ($1.7 million) to renovate Agrogabon's equipment, which had been left in poor condition by its previous operator, the Malaysian firm Winnerpac. The government will take over the two firms' combined debts of 10 billion CFA francs ($17 million) and the

OECD Browse_it Edition • Read Only • Lecture seule

sale of the franchise will earn it about 2.7 billion CFA francs ($4.6 million). The three main firms due for privatisation but whose disposal has been delayed are Gabon Télécom, the national railway and Air Gabon. The IMF and World Bank are keen to privatise rapidly Gabon Télécom, but this has been put off several times. The government plans to offer 35 per cent of its capital to a strategic partner who would manage the firm. The remaining capital is to be disposed of two years later. However, a dispute between Gabon Télécom and its mobile phone subsidiary Libertis about shared costs of interconnection is delaying the offer for sale. The franchising of the Octra (Office du Chemin de fer Transgabonais), which runs the Libreville-Franceville railway line, is being held up by a dispute between the government and the former operators, a forestry group. Setrag (Société d'Exploitation du Transgabonnais), a subsidiary of Comilog, which took over from the forestry group in May 2003, thus had its management contract extended by 18 months in January 2004. The interested parties eventually agreed to increase Octra's capital to include the line's main users (the forestry group and Comilog, to transport manganese). Privatisation of Gabon Poste and Air Gabon is some way off. The post office, structurally in deficit, requires a sectoral analysis and revamping of Air Gabon (upgrading data systems and management supervision, and reorganising routes) is far from complete.

Transport costs in Gabon are very high because of the widely-scattered population, especially in the east. The weather makes some roads impassable for part of the year and helps to destroy them rapidly, especially as they are sometimes poor quality in the first place and are worn by passing timber carriers. This damage, also in towns, is worsened by lack of maintenance and the government's use of money from the road maintenance fund (FER) to build new infrastructure. In response, funding sources made money for new roads conditional on the good management of FER. The lack of roads has led to the building of many airfields and numerous small airlines took over routes abandoned during the restructuring of Air Gabon. Air travel is still very expensive though. Dock facilities at Owendo and Port Gentil, run by Oprag, are inefficient and have to compete with the Douala port in Cameroon.



The banking and finance sector is healthy and BEAC's prudential ratios were being kept to by nearly all banks and credit houses on 31 December 2003. In fact, banks have too much liquidity. The gross rate of non-performing loans was no more than 10.7 per cent at the end of 2003 and almost all were secured. Banking infrastructure is being modernised. Payment procedure for large sums is being hooked up with the TARGET system and computerisation and dematerialisation of inter-bank cheque-handling is underway. Despite this healthy situation, financial intermediation activity is limited. The number of dubious loans has risen sharply in the past three years (19 per cent in 2003), causing problems for the government (which had 38.7 per cent of such loans) and the forestry sector (agriculture as a whole had nearly 20 per cent). The banking sector's profitability fell 5.7 per cent in 2003 and its excess liquidity was a sign of a weak financial system (gross loans were only 14.3 per cent of GDP in 2003, down 9 per cent on the previous year) and lack of opportunities in the economy (oil companies do not borrow on the local market). This also explains the banks' narrow investment range and risk-taking by over-reliance on the public sector and the timber industry (as shown by the pattern of dubious loans). The Central African Regional Stock Exchange (BRVMAC) is expected to open in 2004 and its growth depends on how privatisation (especially of Gabon Télécom) goes and whether investors use it or its rival in Douala. The indefinite postponement of BEAC's reform of its statutory advances system makes a local bond market unlikely any time soon.

The business climate (especially for foreign investors) is considered satisfactory by the private sector, despite parafiscality and cumbersome procedures. Gabon is helping draft labour standards under the OHADA Treaty, which it has signed. This has highlighted the fact that its laws are more pro-business than most other member countries. The government is also setting up a national arbitration court to help settle trade disputes. Efforts are being made to improve transparency. A new system of awarding government contracts was adopted in December 2002 with the help of the World Bank and in 2003 an anti-corruption law came into effect, along with another on declaration of assets by



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



government officials, and a properly-equipped national commission against illegal enrichment (CNCEI) was set up. Unlike in the past, these laws should be implemented.

But progress is still negligible in the key area of transparent handling of oil revenues, despite progress in auditing oil companies. Budgetary treatment of revenues (through special funds) and transparency in the relationship between the government and companies (contracts and calls for tenders) may be a key issue with the IMF in 2004.

## Political and Social Context

The big event of 2003, as political stability was maintained, was the amendment of the national constitution – abolishing the two-term limit to allow President Omar Bongo Ondimba to stand again in 2005 and limiting elections to one round instead of two. Parliament said it proposed the voting change to reduce the cost of holding elections and to weed out fringe candidates. The amendments set off much national debate and were seen, especially abroad, as a setback for democracy. It once more postponed discussion about the succession to Bongo, who has been in power since 1967. But rising unrest among trade unions, which staged many strikes and demonstrations, led the government in August 2003 to negotiate for a social truce, which was signed on 26 September. The agreement included price cuts of about 100 consumer items by 15 per cent, but these had not been implemented by early 2004. The rest of the accord seemed impractical as the economy was increasingly liberalised.

Gabon is a paradox where social, health and educational development is concerned. It ranked 88th in the world in per capita income (in terms of purchasing power parity) in 2002 and 117th on the UN Human Development Index. The windfall of oil in recent decades has not eradicated poverty, which remains severe, especially in the countryside, as shown by social indicators – only 55 per cent of rural households have access to clean water and most houses do not have solid walls (76 per cent in Ogooué-Lolo province). The exodus from the countryside has unbalanced life in towns and cities and 80 per cent of Libreville's population in 1999 had inadequate garbage collection, water supply and sewage facilities.

Another contradiction is that despite relative wealth, social spending is small both in the budget and relative to GDP. Spending on education was only 4.6 per cent of GDP between 1998 and 2001, compared with 9.3 per cent in Botswana, which has similar national income. This is disturbing because poverty seems to have worsened (though there are few recent figures). The end of uranium mining, declining livestock and plantation activity in eastern Gabon, constant crises in the forestry sector (a major employer), the government's financial problems (resulting in no new public sector jobs) and restructuring linked to privatisation have been largely responsible.

The government drew up its first poverty reduction strategy paper (PRSP), even though it did not have to because it is not eligible for HIPC debt relief or poverty reduction and growth facility (PRGF) funding. It was sent to the funding agencies in early 2003 and was welcomed, though it was criticised for not providing adequately for participation (though Gabon's civil society is small) and for its lack of clear priorities and recent data on poverty.

The healthcare situation is another contradiction. Life expectancy is about 53, the highest in central Africa but well below the average 70 years of "intermediate" countries. Government-supplied infant/child mortality figures are poor – 61 per 1000 between 0 and 11 months and 91.4 per 1000 between 0 and 4 months (100 per 1000 in rural areas). In the absence of a national blood survey, local population surveys and hospital and laboratory data led the government to estimate a 6 per cent incidence of HIV/AIDS among adults in 2002 (7.7 per cent in urban areas). This figure is rising fast in a situation where blood tests are still rare.

Medical services are also inadequate and in 2002 only 26.4 per cent of children between 12 and 23 months had received all necessary vaccinations (BCG, DTP,



© AfDB/OECD 2004

OECD Browse_it Edition • For Read Only • Lecture seule

polio and measles), while 35 per cent of births took place without trained personnel. Hospital facilities are seriously lacking (2 beds per 1000 inhabitants) and run-down. Most country clinics are very dilapidated and have stopped operating for want of money and supplies. This overcrowds the main hospitals in the towns and cities, reducing quality and widening the urban-rural gap in availability of medical care.

The problem is not just lack of money but also the government's failure to assess health needs and formulate policy, as well as problems of implementation – none of the health ministry's 2002 investment budget of some 4.1 billion CFA francs ($5.8 million) was spent – and the priority given to major hospitals (which absorbed 77 per cent of the health budget) to the detriment of primary care facilities (10 per cent of the budget), especially clinics.

Gabon is one of the few African countries offering free universal education and in 1999 gross primary enrolment was 152 per cent, with gender parity up to secondary level. But performance and quality were major problems. A government demographic and health survey in 2000 showed 19 per cent illiteracy (49 per cent in the countryside) and 70 per cent of the workforce with only primary-level education.

Retention and dropout rates are also very high (18.3 per cent of primary pupils are older than 15 and only 56 per cent of 10-year-olds graduate to secondary school). These problems are due to lack of money, equipment and follow-up of pupils. Broken-down infrastructure and overcrowded classrooms are matched by lower teaching quality and growth of corruption and favouritism in enrolment. Student rioting in Owendo in January 2004 sharply highlighted these problems in spite of the country's free education.

Teacher training was also inadequate and very low pay made for extensive absenteeism and even abandonment and refusal of jobs in the countryside (partly due to a dearth of cheap housing and geographical remoteness). Apart from financial difficulties, the education system's problems also stem from poorly-co-ordinated educational policy, bad career management for teachers and an elitist attitude that neglects intermediate education (especially vocational training).



© AfDB/OECD 2004

# Ghana

**key figures**

| | |
|---|---|
| • Land area, thousands of km² | 239 |
| • Population, thousands (2002) | 20 471 |
| • GDP per capita, $ (2002) | 301 |
| • Life expectancy (2000-2005) | 57.9 |
| • Illiteracy rate (2002) | 26.2 |

An OECD Browse_it Edition • Lecture seule
Read Only

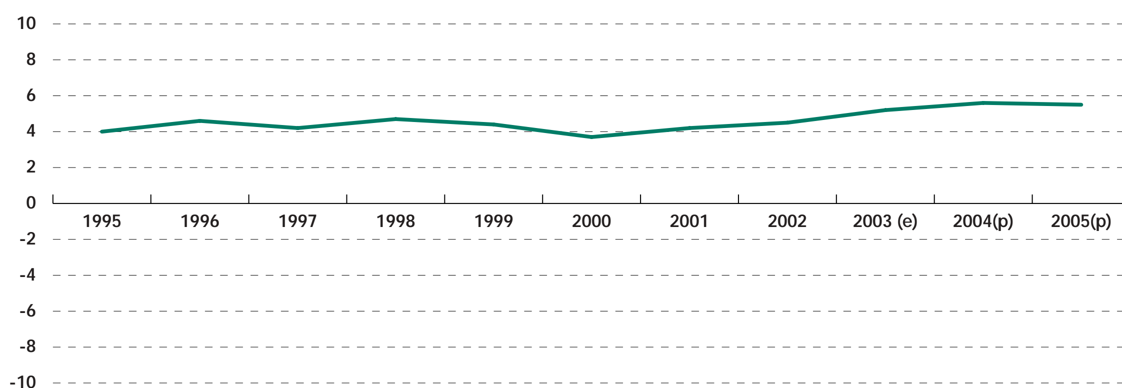
# Ghana

THE GHANAIAN ECONOMY appears to be responding positively to measures taken since the poor performance of 2000. Real GDP growth has been on an upward trend, the government's fiscal position has improved, and significant improvement is also recorded in the external payments situation. The government is combining the improving macroeconomic stance with a commitment to reduce poverty systematically through the implementation of the country's PRSP. Real GDP growth, which rose from 4.5 per cent in 2002 to 5.2 per cent in 2003, is projected to increase to 5.6 per cent in 2004, and to remain stable at 5.5 per cent in 2005, following continuing improvement in agriculture and stability in macroeconomic management. Although the government has faced difficulty in reducing its domestic debt, the overall budget deficit fell to the lowest level in several years in 2003; the deficit is projected to decline further in 2004 and 2005, as the government reduces its interest burden on domestic debt. Similarly, while the monetary authorities have continued to face difficulty in reducing growth in monetary aggregates to desired levels, prudence in monetary management has contributed to a decline in the cost of borrowing. Inflation has come down, though not to required levels, and is expected to become single-digit in 2004. Furthermore, as a result of significant improvement in the external accounts (expected to continue in 2004 and 2005), the external reserve position improved to its highest level in several decades in 2003. Ghana's structural reforms are yielding positive results in attracting investment into the economy. However, in some areas of reform, especially privatisation, progress has been extremely slow. Improving the energy supply situation remains crucial to the government's development objective. The government places considerable hope on ongoing projects, such as the West African Gas Pipeline Project, to make the huge natural gas reserves of Nigeria available to Ghana. Ghana's political climate remains stable, with the country's democratic structures becoming stronger as efforts continue to be made to ensure the rule of law and enhance social order.

**Growth is projected at over 5 per cent for the next 3 years following improvements in agriculture and stability in macroeconomic management.**



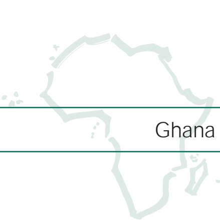
Figure 1 - **Real GDP Growth**




**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

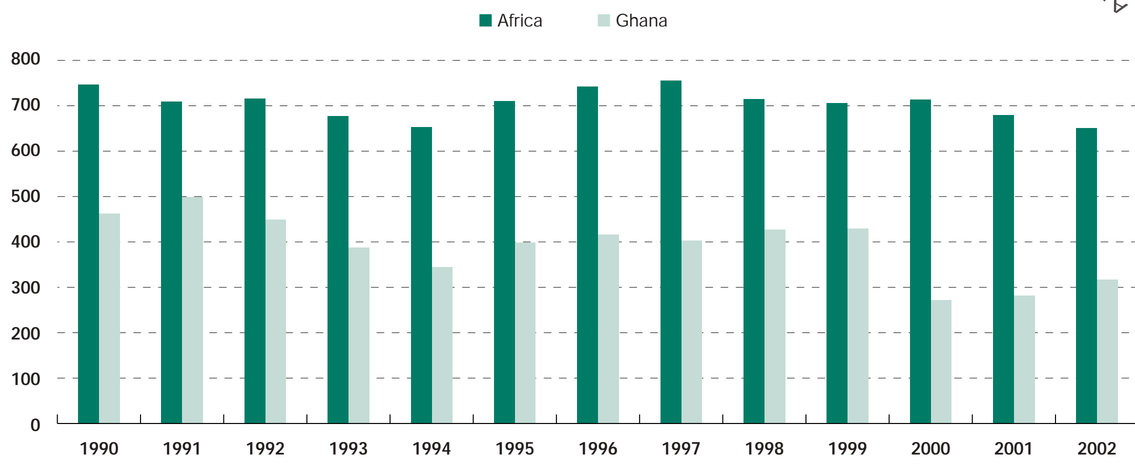
## Recent Economic Developments

The medium-term economic programme is based on the Ghana Poverty Reduction Strategy (GPRS), which was adopted in 2002. The main thrust of the programme is growth and poverty reduction and implies that the government is not only concerned about poverty reduction, but also about sources of growth in



OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.



the economy that will accelerate poverty reduction. Meanwhile, the economy appears to be responding to stabilisation measures put in place following poor economic performances in 2000. However, the performance of the economy remains mixed. In 2002, while significant progress was achieved with real GDP growth reaching 4.5 per cent from 4.2 per cent in the previous year, a number of unstable underlying conditions emerged in the conduct of economic management, especially in the fiscal activities of the government. The strong growth performance continued in 2003, buoyed by a stronger growth in agriculture. Real GDP growth rose to an estimated 5.2 per cent in 2003 and is projected to remain strong, reaching 5.6 per cent in 2004, and to remain stable at 5.5 per cent in 2005. The improvement in growth is expected to follow improved agricultural performance and stability in macroeconomic management.

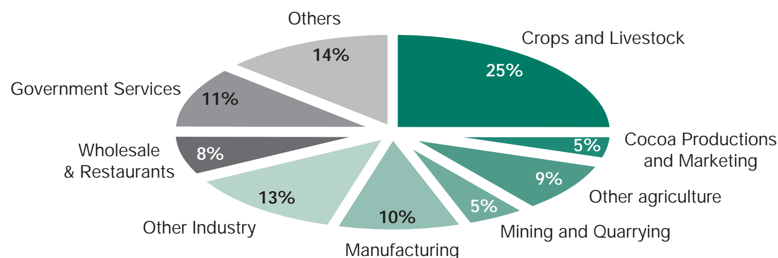
The recent relatively strong growth performance has been reflected in all sectors of the economy. Agriculture remains the dominant sector, with a 39.2 per cent share of total GDP in 2002. Total agricultural output grew by 4.4 per cent in 2002, from 4 per cent in the previous year. Agricultural output expanded by 6.1 per cent in 2003, propelled by a strong recovery in the cocoa sub-sector. The improvement in agricultural output has been reflected in all sub-sectors. In 2002, food crop production, most notably cereal crops, increased by about 31 per cent, while starchy food production increased by about 9 per cent. With regard to cash crops, the production of cocoa declined from 389 800 tons in 2000/01 to 340 600 tons in 2001/02. This was due largely to the higher incidence of black pod and capsid diseases during the 2001/02 crop season, to which the government responded with a massive country-wide spraying exercise. According to the government, the decline in officially measured cocoa output was also due to the smuggling of cocoa beans to neighbouring Cote d'Ivoire, which it has tried to avert by increasing the producer price of cocoa. These strategies appeared to yield dividends, with the 2002/03 crop year yielding about 497 000 tons of cocoa, constituting a 16.4 per cent increase in output in 2003. The government aims to achieve a farmers' share of 70 per cent in the international f.o.b price of cocoa by the 2004/05 season. At the beginning of the 2003/04 crop season in October 2003, the farmers' share had risen to 69 per cent from about 54 per cent in 2000/01, following increases in the producer price in both 2002 and 2003. The government expects the agricultural sector to spearhead growth in 2004, with an anticipated growth rate of about 6.1 per cent. This anticipation appears to be on track with the revival of cocoa production and the country's continuing good weather. However, the government relies heavily on donor support for its agricultural programmes. In 2003, this reliance was as much as 67 per cent of the budget for



© AfDB/OECD 2003

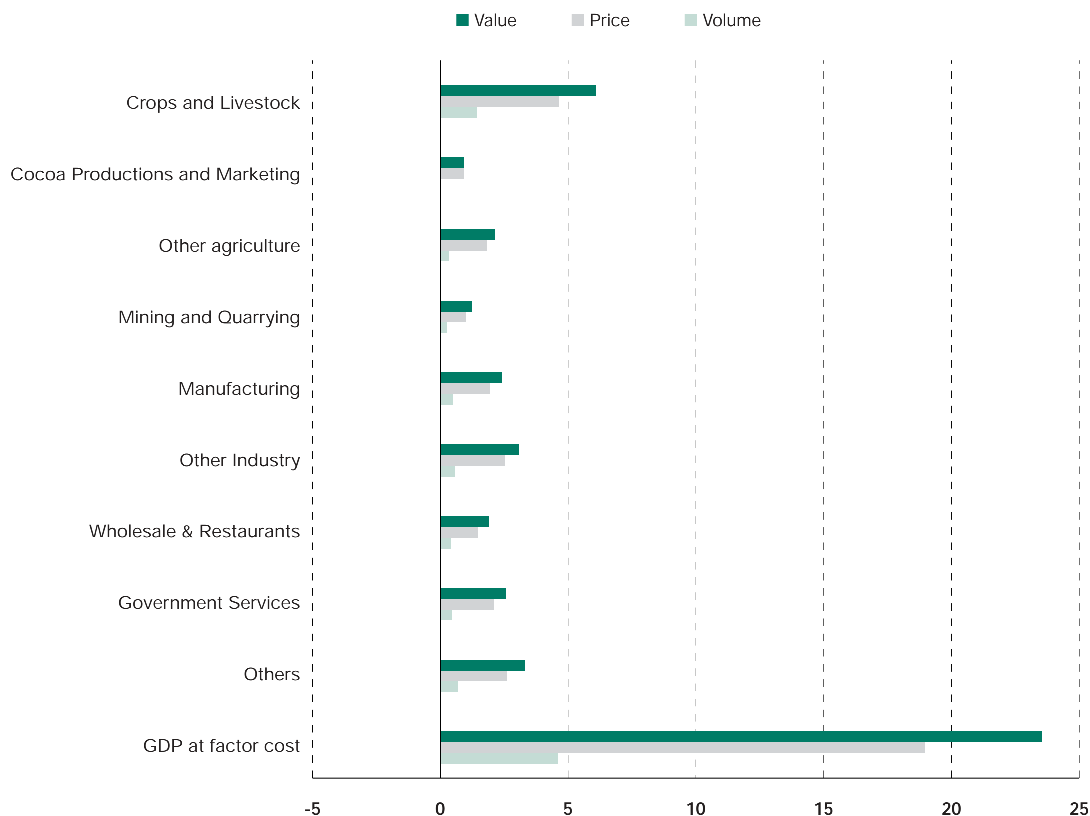
OECD Browse_it Edition • Lecture seule • Read Only

Figure 3 - **GDP by Sector in 2002**




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

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**




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

agricultural programmes. Such high dependence on aid creates uncertainty and may limit the possibilities of growth in agriculture, given recent shortfalls in donor inflows to the country.

The industrial sector has maintained a 25 per cent share in total GDP since 1997. The sector has, however, been characterised by inconsistency in growth performance. A period of rapid expansion in the early 1990s was followed by stagnation from 1998. However, in 2002 industrial output jumped by 4.7 per cent compared with the annual average 2.9 per cent growth rate during the 1998-2001 period. The relatively strong performance in 2002 was in response to recent



© AfDB/OECD 2003

OECD Browse_it Edition • Read Only • Lecture seule

improvements on the macroeconomic front. Also, the government's recent direct intervention measures, notably the Presidential Special Initiatives (PSI) on cassava, garments textiles and salt, have added impetus to industrial production over the past two years. The improved industrial output in 2002 was reflected in the major sub-sectors, particularly mining and quarrying, which recorded its strongest growth of 4.5 per cent since 1997 to reverse four successive years of decline. However, the spurt in mining and quarrying growth in 2002 was largely due to the jump in international prices of minerals, as volume of output was poor. The production of all major minerals declined: gold output fell by 7 per cent while diamond output fell by 11 per cent. These figures suggest that the mining industry is yet to recover from the industrial disputes that have disrupted production during the last two years.

Growth in manufacturing was 4.8 per cent in 2002 compared with 3.7 per cent in the previous year. The manufactures that led the growth were petroleum refining, non-ferrous base metals and cement, products which were largely consumed locally, gaining from the increased economic activity during the year. On the other hand, other manufactures such as sawmill and wood products, tobacco and tobacco products, cutlery and non-ferrous products have continued to record negative growth rates since 1998.



The industrial sector is expected to grow by 5.1 per cent in 2003, reflecting improvement in capacity utilisation and the outcome of the Presidential Special Initiatives (PSI). In 2004, the PSI and a New Industrial Reform and Accelerated Growth Programme initiated in November 2003 are expected to maintain industrial growth at 5.2 per cent. Under the GPRS, Ghana is expecting longer term average annual growth of 12 per cent in the industrial sector. Such growth targets will require distinct, orchestrated strategies and policies rather than the series of special industrial projects and special initiatives that are currently being pursued.

The services sector remains the second biggest contributor to total GDP, accounting for about 33 per cent in 2002. Growth in the sector fell marginally to 4.7 per cent in 2002, mainly due to government services, as the government reduced its activities in its anti-inflationary campaign. Wholesale, retail trade, restaurants and hotels maintained strong growth in 2002 at 5.5 per cent. Tourism contributed to this strong growth. In 2002, an estimated 482 643 tourists visited Ghana; this represented an increase of over 10 per cent on the number of tourists in 2001 and continued an upward trend since 1990. It is significant to note, however, that overseas Ghanaians represent as much as 27 per cent of tourist arrivals in the country. In response to the increasing number of visitors, the number of hotels and hotel beds in the country have expanded rapidly. Whilst there were 7 500 hotel beds in 1990, there were over 20 000 in 2002, with much of the expansion occurring in the last three years. Telecommunications expanded rapidly in 2002 to boost growth in the services sector. In line with the GPRS the government has extended telephone access to several rural communities. Also, several free-phone dialing lines and prepaid phone systems were provided during 2002. Thus, access to telephone services increased by nearly 9 per cent from 199 934 subscribers in 2001 to 217 084 in 2002. In addition, growth in mobile telephony was spurred in 2002 with Ghana Telecom entering the cellular phone market with a wider coverage than the three existing operators. Growth in the services sector reached 4.9 per cent in 2003, as the government continued to give support to public transportation. The continuation of the policy of mass transportation through the provision of over 200 high occupancy buses in 2003 was a big boost to the sector. Another significant boost was the government's inter-modal transport system, under which a 400-acre inland port is being developed. A further contributing factor to the sector's growth was the crisis in Cote d'Ivoire, which resulted in Ghana's northern neighbours (particularly Burkina Faso) expanding their operations with Ghana, especially through the Tema harbour.

The demand composition of GDP in 2002 presented worrying signs as gross capital formation fell to its lowest level for some time. This situation, which also saw a low point in public gross capital formation and a stagnation in private investment, presents a major challenge for sustainable growth without foreign


© AfDB/OECD 2003

OECD Browse_it Edition • Read Only • An OECD Lecture Seule


**Table 1 - Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **20.0** | **24.0** | **26.6** | **19.7** | **19.9** | **19.7** | **20.4** |
| Public | 14.2 | 9.2 | 12.8 | 6.1 | 6.1 | 6.0 | 6.1 |
| Private | 5.8 | 14.8 | 13.8 | 13.6 | 13.8 | 13.7 | 14.3 |
| **Consumption** | **88.4** | **94.5** | **93.0** | **92.5** | **93.2** | **91.8** | **90.7** |
| Public | 14.0 | 16.9 | 17.8 | 17.6 | 16.9 | 16.1 | 15.8 |
| Private | 74.4 | 77.5 | 75.1 | 74.9 | 76.3 | 75.6 | 74.9 |
| **External demand** | **-8.4** | **-18.4** | **-19.6** | **-12.3** | **-13.0** | **-11.4** | **-11.2** |
| Exports | 24.5 | 48.8 | 45.2 | 42.6 | 44.1 | 44.3 | 45.0 |
| Imports | -32.9 | -67.2 | -64.8 | -54.9 | -57.2 | -55.8 | -56.2 |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

savings. The demand composition of GDP in 2003 mirrored the situation in 2002, raising questions about the government's declared policy of making the private sector the engine of economic growth. Private capital formation stagnated for a third successive year in 2003. However, gross capital formation is expected to rise as a share of GDP in 2005, albeit to below historical ratios.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

The fiscal policy is currently aimed at strengthening the tax base, allocating resources (including HIPC relief) towards priority areas identified in the GPRS, and reducing the burden of domestic debt. Whilst there has been some success in the first two of these objectives, efforts in debt reduction have remained unrewarded. Domestic debt, which rose from one per cent of GDP in 1990 to 21 per cent in 1995, reached 29.6 per cent in 2002 and is expected to decline only marginally in 2003.



Notwithstanding the difficulties in expenditure management, the overall budgetary position of the government appears to have been improving recently. In 2002, the overall budget deficit fell from 7.7 per cent of GDP in 2001 to 5 per cent. In 2003, the overall deficit is estimated to have fallen to 3.2 per cent of GDP, with a significant primary surplus estimated at

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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[a] | **24.1** | **19.8** | **25.0** | **21.1** | **23.5** | **22.1** | **20.8** |
| Tax revenue | 14.7 | 16.3 | 17.2 | 17.5 | 17.5 | 17.2 | 17.0 |
| Grants | 3.6 | 2.1 | 6.9 | 3.1 | 5.5 | 4.4 | 3.3 |
| **Total expenditure and net lending**[a] | **30.4** | **27.7** | **32.7** | **26.1** | **26.7** | **23.9** | **22.1** |
| Current expenditure | 16.4 | 18.5 | 19.9 | 20.0 | 20.6 | 17.9 | 16.0 |
| *Excluding Interest* | *12.1* | *11.0* | *12.3* | *13.8* | *13.3* | *12.7* | *12.4* |
| Wages and salaries | 5.6 | 5.2 | 6.1 | 8.5 | 7.9 | 7.6 | 7.5 |
| Interest | 4.2 | 7.5 | 7.6 | 6.1 | 7.3 | 5.2 | 3.5 |
| Capital expenditure | 14.0 | 9.2 | 12.8 | 6.1 | 6.1 | 6.0 | 6.1 |
| **Primary balance** | **-2.1** | **-0.4** | **-0.1** | **1.2** | **4.2** | **3.4** | **2.3** |
| **Overall balance** | **-6.4** | **-7.9** | **-7.7** | **-5.0** | **-3.2** | **-1.8** | **-1.3** |

a. Only major items are reported.
**Source:** Domestic authorities' data; projections based on authors' calculations.

4.2 per cent of GDP. This improvement is expected to continue, with the overall deficit projected to decline to 1.8 per cent of GDP in 2004 and 1.3 per cent in 2005. Significant primary surplus will continue in 2004 and 2005.

In 2002, the government implemented several measures to mobilise revenue, including the establishment of a National Tax Audit Team; the establishment of the secretariat of the National Revenue Agencies Board; the implementation of the uniform Tax Identification Number (TIN) scheme by all revenue agencies; and the creation of the Large Taxpayer Unit. Consequently, tax revenue rose to 17.5 per cent of GDP in 2002 from 17.2 per cent in the preceding year. However, a significant fall in non-tax revenue, especially in external grants, with only 50 per cent of anticipated inflows received, contributed to total revenue declining to the equivalent of 21.1 per cent of GDP in 2002 from 25 per cent in 2001. The government has made much of the shortfall in grants in 2002. However, this situation was actually not unusual: since 1997, with the exception of 2001, Ghana has never received all anticipated external grants. Another significant shortfall in non-tax revenue in 2002 was divestiture receipts, with less than one per cent of the anticipated amount realised. This situation reflected the stalling of the divestiture programme. The revenue situation improved significantly in 2003, with total revenue rising to 23.5 per cent of GDP. Ghana's tax effort continued to yield higher receipts, when previous measures were complemented by the creation of the National Health Premium; the Debt Recovery Levy on petroleum products; and by an increase in the road levy and higher stumpage fees in the timber sector. Also, grants rose sharply in 2003, explained by the government to be the result of timely disbursements influenced by the innovative Multi-Donor Budgetary Support (MDBS) framework arrangement with development partners. The government expects the revenue situation, both domestic and foreign inflows, to remain strong in 2004. However, no new major revenue mobilisation measures have been put in place in 2004, with the government's relying on improvements in tax administration to yield the expected gains. In the absence of new measures, total government revenue is projected to fall in 2004 and 2005. Although the domestic tax effort is expected to remain strong, a significant decline in grants could lead to a fall in total revenue to 22.1 and 20.8 per cent of GDP in 2004 and 2005 respectively.

The government's recent expenditure programme has been challenged by unanticipated large rises in the wage bill, leading to difficulties in keeping expenditure levels on target. Higher wages and salaries (especially to teachers and doctors) in 2002 exceeded the budget target by about 1.8 per cent of GDP. In an effort to arrest the exodus of doctors and other medical personnel in the public sector from the country, the government granted large salary increases and other incentives. The government's predicament arose from the lack of a consistent public sector wage policy, which relies on a *case by case* solution to new demands for increased wages. The implementation of the 2003 budget in November 2003 brought similar difficulties, with wages rising and further unexpected demands, as well as the burden of servicing the accumulated debt of the Tema Oil Refinery (TOR). Consequently, for the first time in several years, the budget required supplementary appropriation, equivalent to 4.3 per cent of the total original budget, in order to meet domestic interest payments, the public wage bill and expenditures on administration. However, it is important to note that the continuing resort to supplementary budget could have adverse effects, since it undermines confidence in the budget process among the various stakeholders, not least amongst the crucial donors. Also, it was obvious that the government had to find a more predictable approach to wage bargaining, especially as the country moved to an election year in 2004. The government appeared to have moved on the side of caution, announcing no significant increase in government expenditure in the 2004 budget. Total government expenditure is anticipated to fall in 2004 and 2005. Significantly, it is expected that the government will be able to reduce its interest payments, especially on domestic debt, in 2004 and 2005.

The monetary policy of Ghana remains focused on achieving domestic price level and exchange rate stability as key elements in an environment conducive to sustainable economic growth. The Bank of Ghana

OECD Browse_it Edition • Read Only • Lecture seule



 © AfDB/OECD 2003

Browse_it Edition • Lecture seule • A OECD Read Only


(BOG) maintains indirect monetary policy instruments, namely Open Market Operations and Repurchase Agreements (REPOs) as its main policy instruments. However, control of the growth in money supply and liquidity management has continued to be made difficult as the expansion in monetary aggregates has generally exceeded targets.

A new Bank of Ghana (BOG) Act was promulgated at the start of 2002, conferring operational independence on the BOG and assigning the formulation of monetary policy to a Monetary Policy Committee. In 2002, the BOG also introduced the prime rate as an instrument to signal the Bank's assessment of inflationary pressure and its stance on monetary policy. In 2002 broad money supply (M2+) grew rapidly by about 50 per cent against the target of 25 per cent set for the year and compared with 41 per cent in the preceding year. This growth, much of which occurred during the last quarter of the year, was fuelled by a substantial increase (about 190 per cent) in net foreign assets of the banking system. Net domestic assets grew at the slower pace of 26 per cent during the year. The BOG tightened monetary policy from early 2003, which succeeded in slowing down the rate of expansion of M2+ to about 35.6 per cent in 2003. This rate of expansion, however, was still off the target of 25 per cent set for the year. The monetary authorities have set a 19 per cent target per cent for 2004, which, given the recent difficulties, is unlikely to be achieved.

The monetary authorities have made some progress in bringing stability to domestic price levels. However, the attainment of single-digit inflation still remains elusive. In 2002, the annual average rate of inflation was reduced to 14.8 per cent from 32.9 per cent in the preceding year. This was only a little higher than the 13 per cent target. The effect of the substantial increase in money supply during the last quarter of 2002 on domestic price levels began having effects in early 2003, as the annual rate of inflation rose sharply to 29.6 per cent in June 2003, before falling to 23.6 per cent at the end of December. Inflation is projected to fall to 8 per cent in 2004, as agricultural output increases, especially in food crops. It is estimated to rise to about 10 per cent in 2005.

The cost of borrowing in Ghana has continued to decline, albeit at a very slow pace. In 2002, the replacement of the bank rate by the stable prime rate (maintained at 24.5 per cent) led to a decline in the entire range of interest rates. The 91-day Treasury bill rate fell from 26.9 per cent at the end of 2001 to 24.9 per cent at the end of 2002. Average commercial banks lending rates also fell from 46 per cent in 2001 to about 36.2 per cent in 2002. However, 2002 continued to experience a widening gap between deposit rates and lending rates. This was indicative of the marked risk and uncertainty inherent in the economy, as well as the continuing inefficiencies in the banking system. Interest rate movement in 2003 was in tandem with movements in the prime rate. The prime rate was increased to 27.5 per cent by June 2003 in response to rising inflation before being reduced to 24 per cent in October and 21.5 per cent by the end of December as a result of improved economic fundamentals.

Ghana has maintained a flexible exchange rate policy in order to provide incentives for increased production of exportable goods and to enhance competitiveness in international markets. The foreign exchange market has remained relatively calm since the turmoil of 2000. However, the rate of depreciation of the *cedi* in both the inter-bank and forex bureaux markets was higher in 2002 than in the previous year. The *cedi* depreciated by 13.2 per cent against the US dollar in the inter-bank market in 2002, compared with 3.7 per cent in 2001. In the forex bureaux market the depreciation was higher, at 15.7 per cent in 2002 compared with 7.1 per cent in the previous year. The relatively higher depreciation of the *cedi* in 2002 was caused mainly by the fall in donor inflows, particularly in the latter part of the year. The real exchange rate of the *cedi* also depreciated in 2002. In 2003, the *cedi* remained largely stable and volatility on the foreign exchange market was reduced despite the spill over effects of the euro/dollar exchange rate movements on the international exchange rate market. By the end of the year, the *cedi* had depreciated by 4.6 per cent against the US dollar.

### External Position

Ghana's external sector policy continues to focus on building up the external reserve position in order to



© AfDB/OECD 2003

OECD Browse_it Edition • Read Only • Lecture seule

cushion the economy against short-term external shocks. The country's trading partners have remained largely unchanged. Trade with western Europe and the United States remains dominant, though trade with ECOWAS countries, notably Cote d'Ivoire, Nigeria and Togo has become increasingly significant. Within ECOWAS, the major suppliers of Ghana's merchandise imports remain Nigeria and Cote d'Ivoire, in spite of the latter's recent crisis. The other major suppliers of Ghana's merchandise imports are the United Kingdom and Germany, while the main destination of Ghana's exports are the Netherlands, the United States, the United Kingdom and Germany.

Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -3.9 | -16.5 | -18.2 | -10.7 | -11.3 | -9.7 | -9.9 |
| Exports of goods (f.o.b.) | 22.2 | 38.9 | 35.2 | 33.4 | 34.8 | 35.2 | 35.4 |
| Imports of goods (f.o.b.) | -26.1 | -55.4 | -53.3 | -44.1 | -46.1 | -44.9 | -45.2 |
| Services | -4.5 | -2.0 | -1.4 | -1.7 | | | |
| Factor income | -2.1 | -2.9 | -2.0 | -1.8 | | | |
| Current transfers | 8.1 | 13.1 | 16.3 | 14.6 | | | |
| **Current account balance** | **-2.4** | **-8.4** | **-5.3** | **0.5** | | | |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

In 2002 the external sector performance improved, due primarily to an improvement in the trade account. Lower import values in 2002 accounted for a lower trade deficit. As a result, the trade balance showed a deficit equivalent to 10.7 per cent of GDP, smaller than the 18.2 per cent recorded in 2001. This improvement led to a small current account surplus of 0.5 per cent of GDP in 2002. In 2003, the external sector developments remained favourable, serving to underpin the improving current account. The trade deficit rose moderately to an estimated 11.3 per cent of GDP. The trade deficit is expected to fall in 2004 thanks to higher exports and lower imports. In 2005, the trade deficit ought to remain relatively stable.

As a result of the favourable developments in the external accounts, gross international reserves rose to the equivalent of 2.3 months of imports of goods and services in 2002, compared with 1.2 months in 2001. These improvements continued in 2003. Gross external reserves at the end of the year were equivalent to 3.9 months of imports of goods and services, constituting the largest build-up of reserves since 1990.

The total value of exports rose by 1.3 per cent in 2002 on account of favourable international prices for Ghana's major exports commodities. However, in 2002 lower export volumes denied Ghana the full benefits of international price rises. Cocoa export receipts increased to $463.4 million in 2002 from $381.1 million of the previous year. The average export price per ton in cocoa went up from $1 021 in 2001 to $1 266 in 2002. However, the volume of cocoa beans exported fell from 310 476 tons in 2001 to 305 000 tons. Export earnings from gold rose by 11.5 per cent to $689.1 million in 2002. The increase in gold earnings could also be attributed to higher export prices, as volume exported went down from 2 275 000 fine ounces in 2001 to 2 227 000 fine ounces in 2002. Timber exports contributed $182.7 million to total exports in 2002, compared with $169.3 million in 2001. The increase in earnings was entirely due to price changes, as the average unit price of timber went up from $355 per cubic meter in 2001 to $386.8 per cubic meter in 2002, output of timber having remained unchanged.

The performance of exports remained strong in 2003, with the estimated value rising by 14 per cent. This improvement was attributable both to the increased volume of exported cocoa and to a higher international price for gold. In 2003, while cocoa prices softened, total earnings from cocoa for the year to August showed an increase of 71 per cent over the same period in 2002. Export earnings from gold increased by a further 18.4 per cent in the year to September 2003.



 © AfDB/OECD 2003

OECD Browse_it Edition • Lecture seule • An OECD Read Only



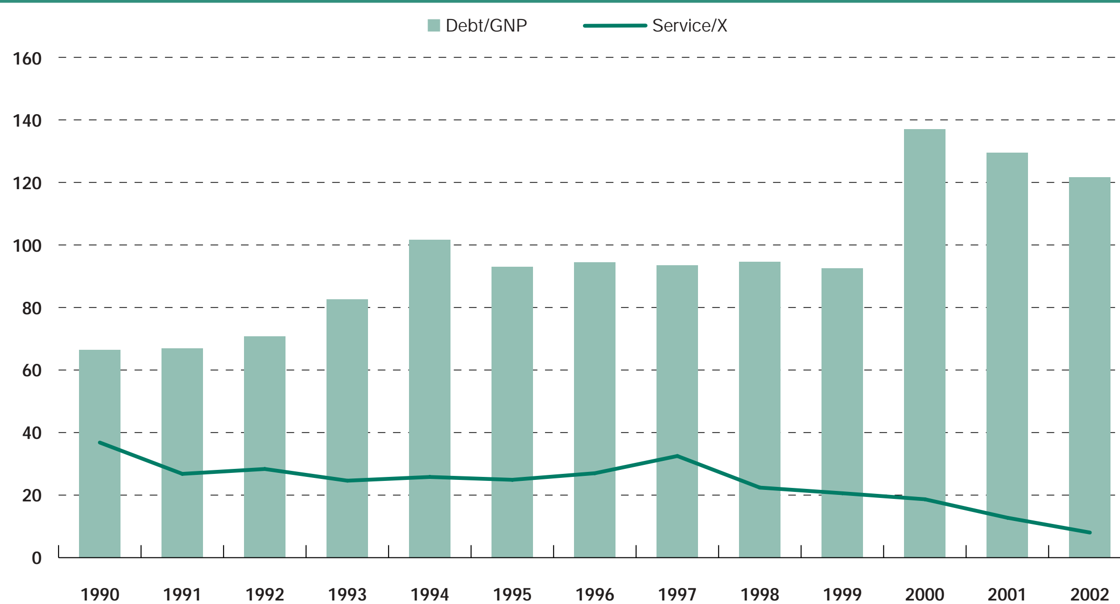
The total value of imports contracted by 9 per cent in 2002. Crude oil imports rose to about 18.8 per cent of total imports for two main reasons. Firstly, the average price of crude was about $25.1 per barrel, higher than the government's projection of $21 Secondly, the quantity of imported crude oil rose to meet the requirements for the thermal plant at Aboadze to generate electricity. The value of imports grew by 9.7 per cent in 2003, reflecting growth in both oil and non-oil imports.

The total external debt of Ghana stood at $6.6 billion at the end of 2002. Of this total, 68 per cent was owed to multilateral institutions, 26 per cent to bilateral creditors (Paris Club and Non-Paris Club) and 6 per cent to commercial creditors. Obligations to the IMF constituted 5.5 per cent of the total debt. Ghana reached the decision point of the enhanced HIPC Initiative in February 2002 and the Paris Club creditors agreed to restructure the country's external public debt with a cut-off date set at 20 June 1999. Total debt relief from all of Ghana's creditors is worth about $3.7 billion, which is equivalent to $2.2 billion in NPV terms or 56 per cent of total debt outstanding after the use of traditional debt relief mechanisms. Under decisions 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 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 began providing debt relief immediately, as did most official bilateral creditors, resulting in an estimated $277 million in total HIPC debt relief for Ghana in 2002. By the end of the year, relief received from multilateral donors totalled $58 million, while negotiations with bilateral creditors were still ongoing. Ghana expects to reach the completion point by the end of 2004 in order to benefit fully from all debt relief that could accrue from the programme. The total debt stock is expected to decrease by about $1.6 billion by this time. The government maintains a policy of contracting new loans with a minimum grant element of 35 per cent.

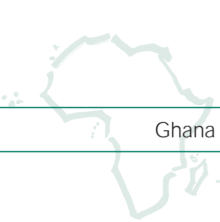


However, in 2002 while long-term and medium-term debt grew by 2.4 per cent, short-term debt shot up by 20 per cent, and accounted at the end of 2002 for

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




**Source:** World Bank.





OECD Browse_it Edition • Lecture seule • Read Only

5.5 per cent of total debt. The risk with such an increasing reliance on short-term debt is that repayments may be bunched together to exert pressure on the balance of payments. As Ghana enjoys the benefits of its HIPC status, it is imperative that debt accumulation does not induce the risk of future debt problems.

## Structural Issues

Ghana's ongoing reforms are currently focused on public enterprises and the financial sector. Ghana continues to implement structural reforms towards increasing private-sector participation in the economy and to attract investment in areas of its comparative advantage. A number of recent developments could positively impact on Ghana's investment profile. First, the $1.42 billion merger of Ghana's Ashanti Goldfield and Anglogold of South Africa in October 2003 could serve as a magnet to attract other major investors. This merger creates the world's largest gold producer, with 26 mines on four continents. Second, as part of the government's self assessment policy, it requested a sovereign rating by Standard and Poor's (S&P). This was Ghana's first credit rating and was also S&P's first rating to be released under the UNDP programme to help sub-Saharan and other countries obtain sovereign credit ratings. The result published in September 2003 gave Ghana a B+ rating. The rating was supported by the government's commitment to macroeconomic stabilisation and reform, to significant political and social stability, and to substantial improvement in external liquidity. Ghana's rating compared favourably with peer group member countries including Senegal (B+) and Morocco (B), but was lower than Botswana's A rating.



In response to meeting the developmental goals of making Ghana a middle-income country by the year 2020, the broad energy-sector policy of the government is to ensure a reliable supply of high quality energy services for all homes, businesses and industries. In order to achieve these objectives Ghana has put in place several institutions and regulations. The main supporting institutions include the National Energy Board, the Energy Commission (EC), and the Public Utilities Regulatory Commission (PURC), an independent body mandated to establish and apply criteria, guidelines, and transparent procedures to regulate all aspects of the commercial interface between public utilities and their customers. Other bodies within the energy sector include the Volta River Authority (VRA) established to develop, generate, transmit and sell hydropower from the Volta River; the Electricity Corporation of Ghana (ECG), with the responsibility for electricity transmission and distribution; and the Ghana National Petroleum Corporation (GNPC), responsible for the exploration and development of indigenous petroleum resources.

Biomass is Ghana's most important energy resource in terms of endowment and utilisation. About 69 per cent of energy consumed in Ghana is biomass (fuel-wood and charcoal). Petroleum products and electricity consumption are in the region of 21 per cent and 10 per cent respectively. In the fuel-wood sub sector, Ghana faces key problems of inefficient production and use of charcoal and firewood, and deforestation.

The second most important indigenous energy source is hydro, the potential capacity of which is estimated at about 2000 MW. About half of the country's potential power remains untapped. Electricity is produced from two main sources. Two hydro power plants with a total installed capacity of 1 070 MW provide the bulk of electricity produced in the country. Thermal power plants with installed capacity of 550 MW account for the rest. These are supplemented with imports (up to 2000 MW) from neighbouring Cote D'Ivoire.

Ghana imports all of its crude oil requirements and even though there are indications of oil and gas resources, their potential is yet to be fully exploited.

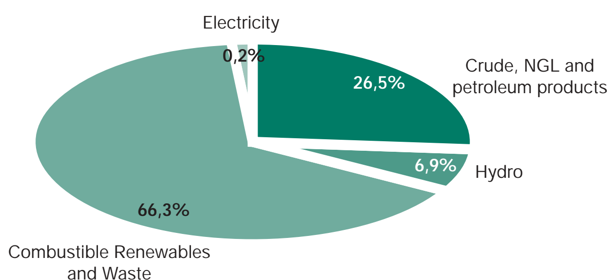
A large proportion of electricity and petroleum are consumed in the urban areas. It is estimated that 77 per cent of urban households have access to electricity, compared to only 17 per cent in rural areas. Similarly, most petroleum products are consumed in urban areas, primarily for transportation. It is only kerosene that shows higher use in rural areas where about 82 per cent of households use the product for lighting compared



© AfDB/OECD 2003

An OECD Browse_it Edition • Read Only • Lecture seule

**Figure 6 - Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

to 22 per cent in urban areas. Consumption of Liquefied Petroleum Products (LPG) is estimated at about 45 000 tons per year, with the bulk of this used for cooking. About 10 per cent of urban households use LPG for cooking, while penetration of LPG in the rural areas is negligible. By and large, demand for all forms of energy is growing. The demand for fuel wood and charcoal is estimated to be increasing at 3 per cent per annum. Electricity demand is growing at about 7 per cent per annum, while consumption of petroleum products is estimated to be growing at an annual 8 per cent.

Several significant policy interventions have been made in the energy sector in recent years. The government has replaced the hitherto monopolistic and centralised structure of energy sector operations with a more decentralised one. Other measures include the commercialisation of the operations of existing state-owned power utilities; the promotion of private sector participation through public-private partnerships and/ or joint ventures, in line with the government's divestiture programme; the deregulation of the distribution of petroleum products and liberalisation of the pricing of products; and the intensification of oil and gas exploration, particularly in deep water.

The government recognises that the most important incentive for private sector investment in the energy sector is to ensure that investors are able to recover costs with adequate returns. In this regard, it is pursuing a pricing policy that ensures "full cost recovery". Within the petroleum sub-sector, attention is on the Tema Oil Refinery (TOR), which, as a strategic, state-owned enterprise, had in the past not been allowed to charge realistic prices for its petroleum products. Consequently, TOR had accumulated debts, estimated as the equivalent of 5.9 per cent of GDP at the end of 2001. By the end of the following year, this debt was estimated to have risen by the equivalent of 2 per cent of GDP. The government's reforms of the TOR debt consisted, first, of converting a portion into TOR Bonds, first issued in July/August 2001, with a second issue in December 2002. The second aspect of the reforms is an automatic adjustment formula for petroleum prices. Since the beginning of 2003, petroleum prices have been brought in line with world market levels and an independent National Petroleum Tender Board now has the responsibility of adjusting prices. As part of the reforms of the TOR debt, the government in 2003 imposed a new tax, the Debt Recovery Levy, with the proceeds used to defray accumulated debt. The government has also applied its public sector reforms towards full cost recovery to the Electricity Company of Ghana (as well as the Ghana Water Company), imposing price increases on these companies from early 2003.

The government is actively pursuing the development of the West African Gas Pipeline Project to make the huge reserves of the natural gas in Nigeria available to Ghana. In the area of crude oil refinery there is a project underway to add a secondary conversion unit (Residue Fluid Catalytic Cracker) to convert the residual fuel from the refinery into lighter products. After the unit begins operations, Ghana looks set to

OECD Browse_it Edition • A Read Only • Lecture seule

become a net exporter of petroleum products. Other projects in the power sub-sector include *(i)* the retrofitting of the Akosombo hydro electric power station; and *(ii)* the completion of the second phase of the Takoradi 2 (TICO) power plant.

Finally, to tackle the issue of renewable energy and expected environmental problems, a number of activities are being undertaken in the context of the GPRS. Planned measures include self-help electrification programme (SHEP); assistance to communities to develop woodlots; introduction of renewable energy technologies such as solar and biogas; and the introduction and promotion of energy efficient technologies.

Ghana's privatisation programme has almost ground to a halt. The government claims to have delayed the divestiture of targeted assets to allow for better asset valuation and achieve greater transparency and efficiency. However, while this may lead to greater value for money, the physical assets may deteriorate further, reducing their value and, thus, interest in the programme. In 2002, while the government set itself the target of "fast-tracking" the sale of 12 companies, only one company (Cocoa Processing Company) was partially privatised. In early 2003, the government maintained that the restructuring of the TOR debt should clear the way for the privatisation of Ghana Commercial Bank (GCB). However, the sale of GCB has since been put on hold in the midst of high public opposition. The government has now set itself the target of completing the divestiture of state holdings in joint venture companies by the end of 2004, a target that would require more commitment by the government than it has shown during the last two years.

In the financial sector, the government wants to see efficient mobilisation and allocation of funds, fully integrated with the global financial system and supported by a regulatory system that promotes a high degree of confidence. Significant progress continues to be made. The key developments during 2002 and 2003 included:

- The finalisation of a new Banking bill that reinforces the supervisory powers of the central bank; and bills to modernise the legal framework for the payment system;
- The preparation of an Insurance bill to strengthen the regulatory framework for the insurance industry;
- The opening of an apex bank to act as a central clearing agent for rural banks;
- Initiation of legislation on money laundering;
- Preparation of a new corporate investment plan for the state pension institution (SSNIT); and
- Drafting of a new Companies Code and a new insolvency regulation.

The Banking, Payments System bill and the Cheques and Insurance bills as well as the new Companies Code were considered by Parliament in December 2003 and are expected to be passed in early 2004.

The financial system continues to perform reasonably well. As part of the efforts to improve the quality of service, banks have continued to launch innovative products including electronic banking, telephone banking and the extension of ATM facilities. However, the banking system is still plagued by weak credit quality. In 2002, provision for bad debts as a proportion of gross loans increased by 5.2 per cent to 18.2 per cent. Moreover, the loan asset quality of the banks deteriorated, as the ratio of non-performing loans to total loans went up from 19.6 per cent to 22.7 per cent.

## Political and Social Context

Ghana's political climate remains stable. The country's democracy continues to be strengthened by efforts to ensure the rule of law and to enhance social order. The parliament enjoys government support in its work on creating a legislative framework which contributes effectively to good governance. The capacity of the Attorney-General's office and the judiciary has been strengthened in numbers of personnel, technology, training and equipment. The government has made concerted efforts to enhance social order by improving the police service with more vehicles, communications equipment and technology, through higher personnel



 © AfDB/OECD 2003

OECD Browse_it Edition • Lecture seule • Read Only

numbers and via enhanced training. In 2003, the zero-tolerance corruption pledge received a boost with the implementation of the Anti-Corruption Plan, including the passage through parliament of the Freedom of Information Act and whistle-blower legislation. Also, the effectiveness of some constitutional bodies has been enhanced, as the government more clearly defined the roles and responsibilities of the Office of Accountability, the Commissioner for Human Rights and Administrative Justice and the Serious Fraud Office. In its crusade to enhance social order, the government is planning to introduce a National Identification System (NIS). The NIS will collect, maintain and update personal details of all citizens of Ghana and other legally resident foreigners on a national register. The NIS will also enhance service delivery to people through effective and efficient targeting and communication.

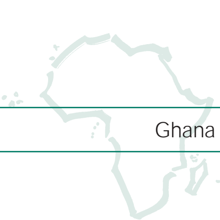
Ghana has now committed itself to a systematic reduction of poverty through the implementation of the GPRS. The Strategy aims, in the medium term, to reduce the incidence of national poverty from 39 per cent in 2001 to 32 per cent in 2004, extreme poverty from 27 per cent to 21 per cent, and poverty among food crop farmers from 59 per cent to 46 per cent. However, the attainment of these targets is conditional upon international assistance, which in turn requires the government to maintain reforms to ensure macroeconomic stability, to strengthen governance and implement the agreed set of measures in priority areas. During 2002, the government's actual expenditure for basic services and income generation activities for the poor and vulnerable in society rose to 25.5 per cent of total government expenditure. About 75 per cent of that allocation was spent on basic human development services – primary health care, basic education and safe drinking water. The rest of the allocation was spent on other poverty-reducing activities such as employment generation, good governance, human rights, public safety, disaster management and on improving the well being of the vulnerable. In 2003, government expenditure for the poor is estimated at 29.6 per cent, enhanced by HIPC debt relief savings. Though the Enhanced HIPC Initiative is internationally driven, the process has been controlled internally and local priorities are driving the disbursement and use of the funds.

Ghana continues to make progress in improving access to health care and making its delivery more efficient. One of the focal points of the GPRS is the HIV/AIDS pandemic. The emphasis here is not only on the prevention of further transmission and spread of the disease, but also to improve the quality of life of people living with it, as well as orphans of HIV/AIDS victims. Following the successful introduction of the female condom, and negotiations for access to antiretroviral drugs and therapy for patients, the government in 2002 signed a five-year contract with an Indian firm for the supply of Nevirapine tablets for the prevention of mother to child transmission of HIV. The target was to bring down the prevalence rate from 3 per cent in 2002 to 2.5 per cent in 2003. Since the beginning of 2004, Ghana has begun supplying free anti-retroviral drugs to some AIDS patients in four hospitals across the country, and is currently considering local production of the life-prolonging medicines. The programme of improving health delivery and access in the country through a full-scale social health insurance scheme is progressing, in spite of some public concern about its funding. Mutual health insurance schemes were piloted in 42 districts in 2002 and are being extended to all districts in 2003. The government is continuing its efforts to reverse the brain drain in the health sector, for example by setting up a vehicle revolving fund for health workers in 2002. Over the 1993-2002 periods, it is estimated that about a third of Ghana's trained health personnel left the country.

The GPRS emphasises the provision of education as a key strategy for poverty reduction. The objective of the education programme continues to be on enhancing access to and improving the quality of free and compulsory universal basic education. The government provided in-service training to 6 267 teachers in 2002 to improve pedagogical skills, with a further 18 000 being given in-service training in 2003. Also, a Teachers' Incentive Scheme, designed to attract and retain qualified teachers especially in remote areas, was initiated in 2002. Classroom teachers in remote areas benefited from 500 motorbikes,



© AfDB/OECD 2003





OECD Browse_it Edition • Read Only • Lecture seule

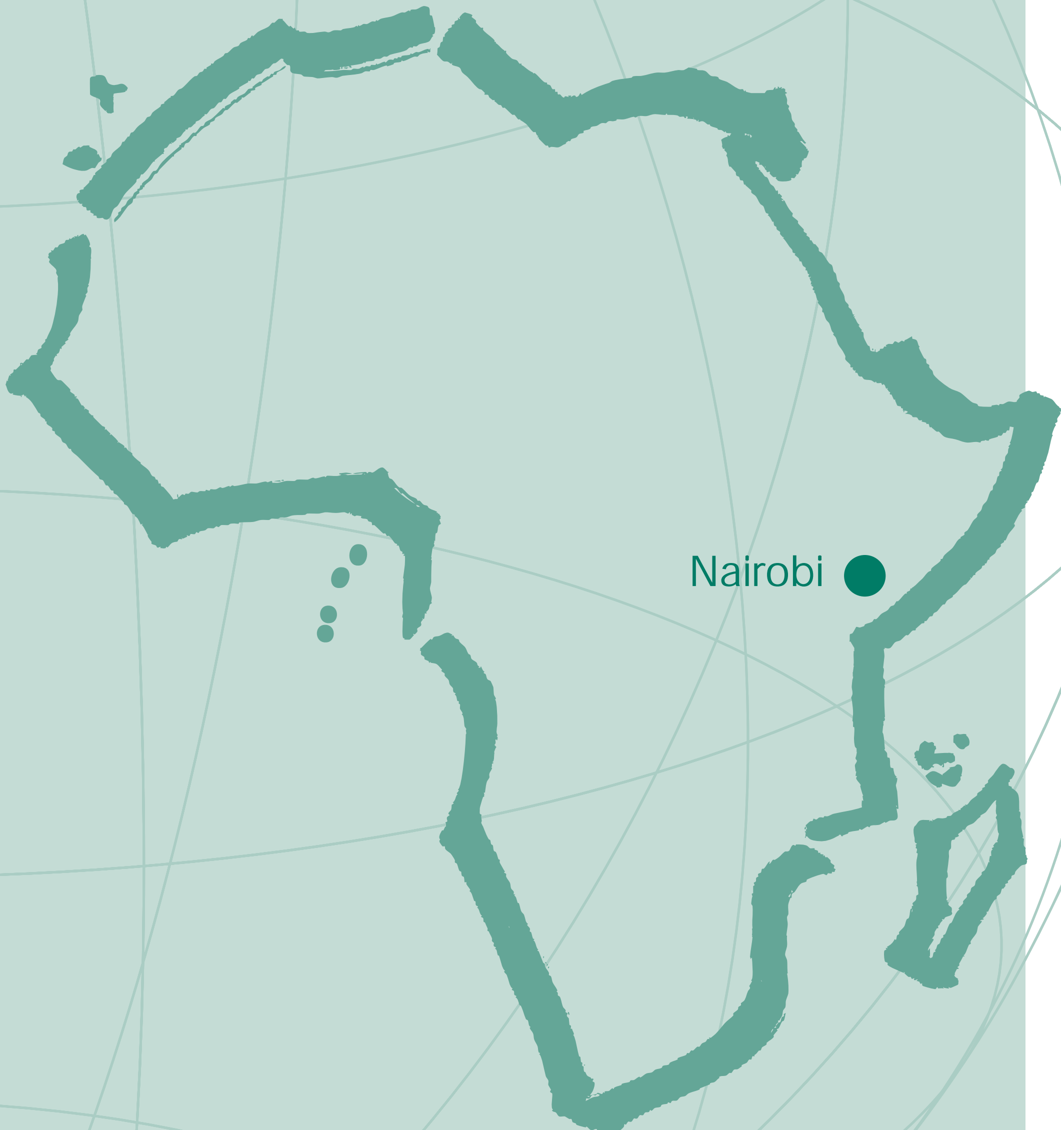
9 000 bicycles for male teachers, and 5 400 bicycles for female teachers to enhance their mobility. In 2003, the government made access to education a priority, with emphasis on the reduction of gender disparities and the development of skills as key medium-term programmes of the GPRS. Accordingly, about 2 000 six-unit classroom blocks for basic schools are being refurbished. Also, the government is constructing 505 three-unit classroom blocks for basic schools. Since the beginning of 2003, the government has begun to attach pre-schools to all basic schools that do not already have them. Some material support has been provided to needy girls as a strategy for increasing their enrolment and retention in school.





© AfDB/OECD 2003

# Kenya




**key figures**

- Land area, thousands of km² 580
- Population, thousands (2002) 31 540
- GDP per capita, $ (2002) 390
- Life expectancy (2000-2005) 44.6
- Illiteracy rate (2002) 15.8

An OECD Browse_it Edition • Lecture •
Read Only

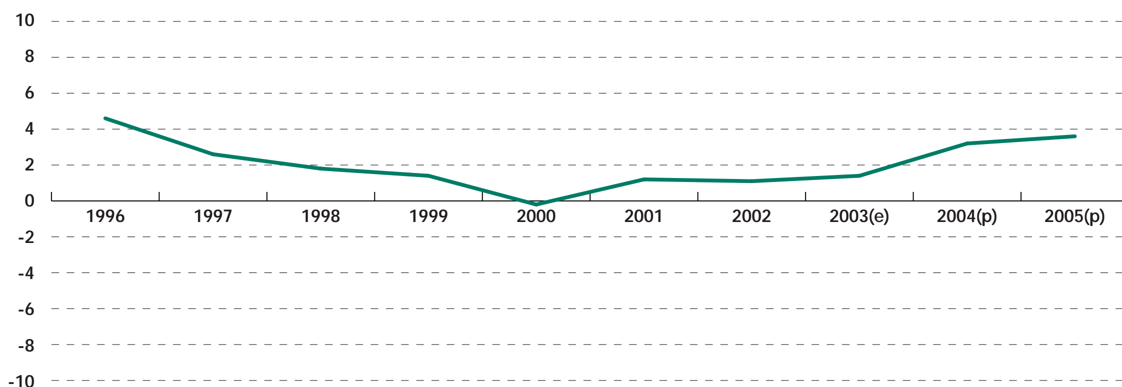
# Kenya

THE RECENT ECONOMIC PERFORMANCE OF KENYA has been well below potential due to a combination of factors including structural bottlenecks and slow pace of reform, low international commodity prices, and governance-related problems. In 2003, while the inauguration of a new government appeared to signal a turn for the better, economic growth remained tame at only 1.4 per cent. Growth had been similarly low in 2002 at 1.1 per cent. The rather poor growth performance in 2002 and 2003 was accompanied by deteriorating economic fundamentals including a huge domestic debt, a worsening fiscal deficit and rising inflation. Under an Economic Recovery Strategy launched in June 2003, economic policy has been reoriented to stimulate growth. The government has also begun to pay attention to the country's governance-related problems by taking important positive steps towards solving the institutional governance issues that have stood between Kenya and major international donors in the past. Economic and other reforms are being reinforced by participatory democracy and political pluralism, which since the political transition in 2002 appear to be stable and working well. Also, the government is taking steps to improve the energy supply situation, which remains crucial to the country's development objectives. The measures being pursued since 2003 ought to reflect an improved economic performance. Real GDP growth is projected to rise to 3.2 per cent in 2004 and further to 3.6 per cent in 2005, as Kenya derives increased financial flows from donors, as well as from exports. The renewed growth performance is likely to be accompanied by improvements in other macroeconomic fundamentals: the government's fiscal deficit should contract, the rate of inflation subside and external payments improve. Nonetheless, the recent poor economic performance has culminated in declining income per head and daunting social problems. These are reflected in increasing poverty, aggravated by unemployment, and relatively low health standards, as well as an education system characterised by non-enrolment, high dropout and low completion rates, which will require special attention as economic activity improves.

The government has begun to pay attention to governance-related problems that have discouraged major international donors in the past.



Figure 1 - **Real GDP Growth**



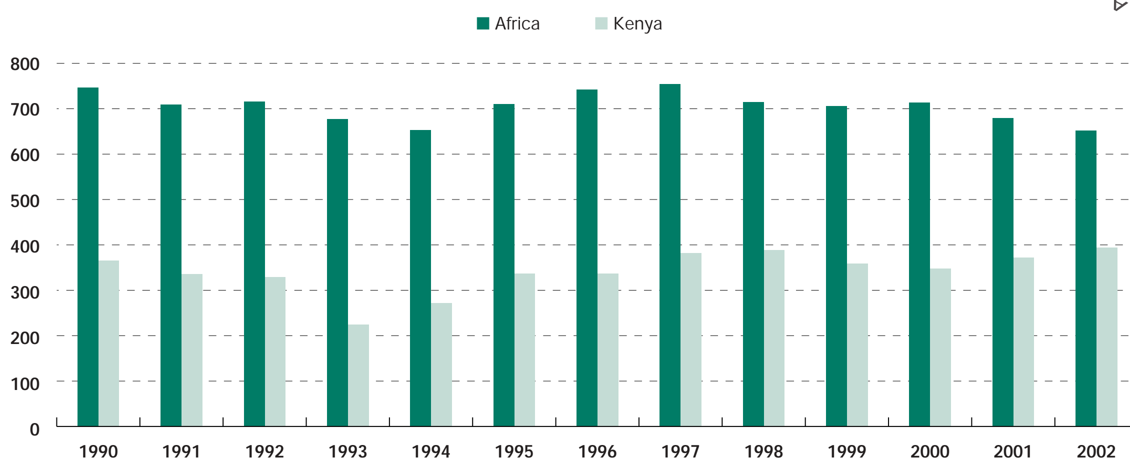

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

## Recent Economic Developments

The economic performance of Kenya has been well below potential in recent years. In an attempt to turn the tide, the National Rainbow Coalition (NARC) administration that took office on 30 December 2002 embarked on reforms aimed at jumpstarting the economy in order to create additional jobs, improve

Browse_it Edition • Lecture seule • AfDB OECD Read Only

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




**Source:** IMF.

governance, and reduce poverty levels. In June 2003, the government put in place an Economic Recovery Strategy (ERS) for 2003-2007, which, as part of broader reform agenda, aims to create opportunities for productive employment. This is to be achieved by rebuilding sound governance structures, addressing the country's main macroeconomic vulnerabilities – particularly the weak budgetary position, large domestic debt, and strained financial system – and reforming the parastatal sector, labour markets and the trade system to foster a more competitive private sector. Several macroeconomic targets were set for the period, including an annual growth rate of 4.7 per cent; raising the domestic investment rate to an annual average of 17.7 per cent; raising the annual savings rate to 15.8 per cent; annual export growth to an average of 5.8 per cent; and reducing government consumption to about 14 per cent of GDP.



The achievement of these targets would allow Kenya to reverse declining per capita income and start reducing the country's pervasive poverty.

In 2002, economic growth remained very low, at only 1.1 per cent. Also, in spite of some signs of recovery in 2003, growth remained rather low at an estimated 1.4 per cent. Several factors have contributed to this tame level of growth. These include governance-related problems that have contributed to Kenya's being denied international financial assistance. While the smooth transfer of political power at the end of 2002 generated considerable goodwill from the international community, the resumption of international financial assistance was too low to boost growth, although towards the end of 2003 international donors signalled their intention to resume normal flows to Kenya. Other factors that have contributed to the dismal growth performance include the slow pace of reforms, the poor state of infrastructure, and low international commodity prices, especially for Kenya's agricultural exports. The outlook on economic growth is positive, with real GDP growth projected to rise to 3.2 per cent in 2004 and further to 3.6 per cent in 2005. The expansion in economic activity is expected to follow increased financial flows, firstly from donors, as Kenya maintains its governance-related reforms, and secondly from increased exportations, particularly coffee exports.

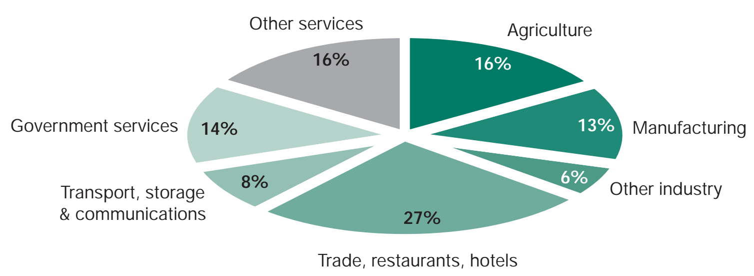
The sluggish economic growth until 2003 has been reflected in all major sectors of the economy. The agricultural sector grew only 0.7 per cent in 2002, with available estimates indicating only a slight recovery to 1.3 per cent in 2003. The sector's growth has suffered from high input prices, low global prices for exported commodities, and mixed weather conditions. In particular, the production of major cereals, maize and wheat, as well as the export commodities coffee and tea, have been adversely affected. Maize output went down from 30 million bags in 2001 to 26 million bags in 2002



© AfDB/OECD 2004

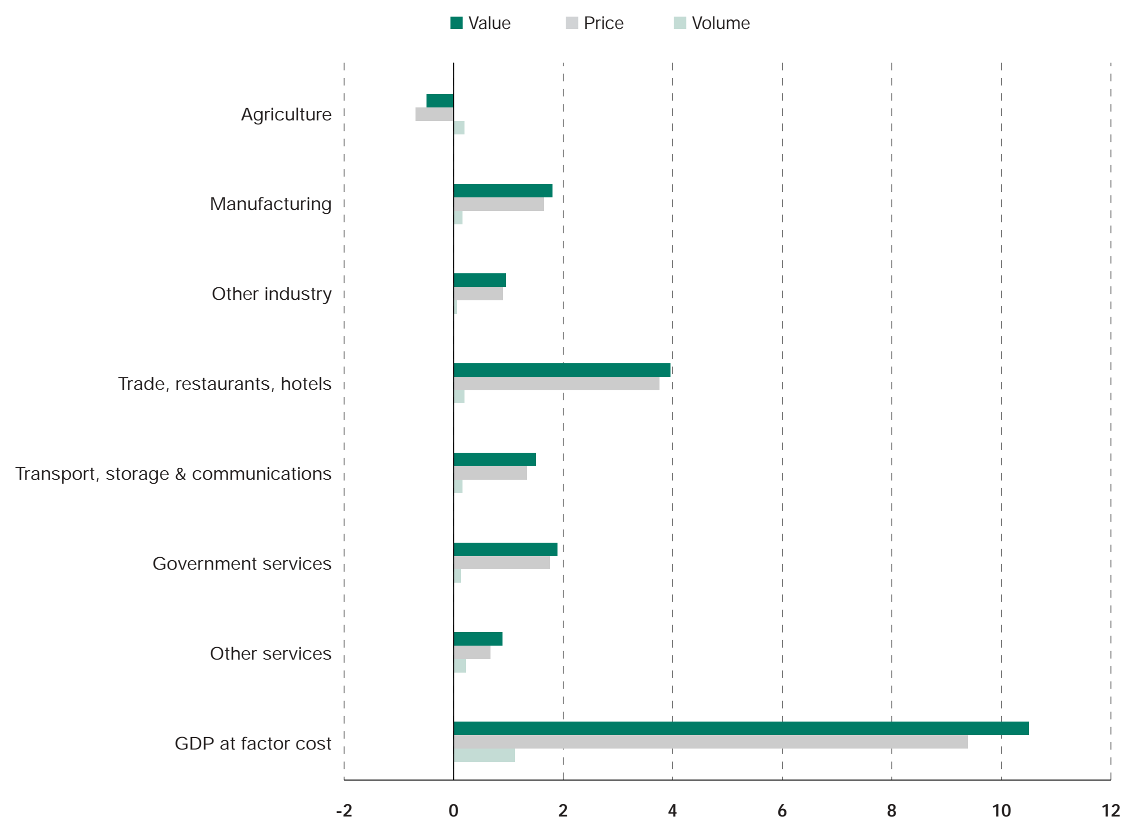
OECD Browse_it Edition • Read Only • Lecture seule • A n

## Figure 3 - GDP by Sector in 2002




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

## Figure 4 - Sectoral Contribution to GDP Growth in 2002




**Source:** Authors' estimates based on IMF data.



although there was an excess supply of maize on the market in 2002 as a result of the large stock carried over from the previous year. In 2003, about 23 million bags of maize were harvested, representing a reduction of about 10 per cent on the previous year's level. Wheat output fell significantly from 81.5 thousand tons in 2001 to 60.1 thousand tons in 2002. The output of maize and wheat also suffered from the competition of duty-free and tax-free imports. This practice consistently drove producer prices below remunerative levels and undermined farmers' incomes, while discouraging local production. Since the beginning of 2003/04, the government has made concerted efforts to improve economic incentives in favour of food crop

OECD Browse_it Edition • Read Only • Lecture seule

farmers, notably through the revocation of the right of all traders to import certain commodities free of duties and taxes, unless these commodities are listed as duty free in the tariffs system. With regard to cash crop production, the output of coffee has continued to suffer from low international commodity prices. As a result, the coffee auction price in Kenya has fallen from an average of Kshs400 ($5.00) in 1997/98 to the 2002/03 level of Kshs120 ($1.50) per kilo. This drop has been exacerbated by management problems that have plagued the industry for many years, with the result that some farmers have neglected their crops, while others have abandoned them altogether. Coffee output in the 2001/02 crop season of 48 000 tons was less than half the output of 100.7 thousand tons realised in the preceding season.

The output of coffee, however, strongly picked up in 2003, with an increase of nearly 50 per cent during the first 8 months of the year. This increase was due to good weather conditions, the elimination of taxes on coffee inputs, and improved crop husbandry motivated by better governance in the sub-sector, which can be attributed to the liberalisation of the coffee market in the late 1990s. Tea output has also suffered on account of poor weather conditions and low global prices. Output of tea fell from 294.6 thousand tons in 2001 to 287.1 thousand tons in 2002. In the first half of 2003, tea output declined further by 3.3 per cent, reflecting delays in the onset of rains in the tea-growing areas. On a positive note, cotton production continues to recover, due to the opportunities offered by the African Growth and Opportunity Act (AGOA) and direct support provided by government.

The manufacturing sector has continued to recover after the adverse effects of the 2000 drought. The sector maintained its 13 per cent share of GDP in 2002, with a growth rate of 1.2 per cent in 2002. During the first part of 2003, growth in the manufacturing sector was estimated to remain at 1.2 per cent. The improving performance has followed the reduction of import duties on most raw materials and industrial intermediates since July 2002, and the increased availability of electricity and water. Also, market expansion brought about by AGOA, COMESA and the EAC trade arrangements has contributed to the resurgence of manufacturing activities. The additional tax incentives introduced in the fiscal year 2003/04 are expected to enhance industrial performance further. Specifically, these measures include duty waivers on capital goods and plant and equipment for investment, the removal of excise duties on locally assembled motor vehicles, the reduction in excise duties on fuel oils, and the increase of investment allowance from 60 per cent to 100 per cent. The high cost of electricity – a particular concern to the manufacturing sector in recent years – is also expected to decline following the zero-rating of bulk electricity imports from Uganda, the reduction of the excise duty on fuel oils by 50 per cent and duty waivers on equipment and machinery used in electricity generation.

The sugar industry in particular has seen a significant upsurge, registering a 31 per cent increase in 2002. Also, all other agro-processing industries recorded positive growth in 2002. Beverages and tobacco showed a growth rate of 4.9 per cent, while textiles and clothing recorded 3.4 per cent growth on account of AGOA.

Within the services sector, tourism, low in 2002, took a turn for the better in 2003. In 2002, in spite of the concerted effort by the authorities to market 'Destination Kenya', tourism activity remained low, largely due to the terrorist attack in Mombasa and the general insecurity in the country. Although the number of arrivals slightly increased in 2002, tourism earnings dropped by 10.4 per cent due to a decline in American and British tourists, who usually spend the most. In 2003, the number of tourists arriving in Kenya continued to increase, with a 13.9 per cent increase recorded in the first part of the year. Also, earnings from tourism showed an increase of 34 per cent in the first 8 months of 2003. This has been attributed to the success of renewed efforts to market Kenya's tourism potential, in the wake of security concerns, adverse travel advice by the British and US governments, and increased competition from other destinations with competitive packages, such as South Africa, Egypt and the Indian Ocean islands. The image of Kenya abroad as a destination of choice by holiday makers also improved following the peaceful general elections and the smooth political transition in December 2002.



 © AfDB/OECD 2004

OECD Browse_it Edition • Read Only • An OECD Lecture seule

Within the services sector, the transport, storage and communication sub-sectors have also continued to show positive growth. Most of this has been in mobile phone services, which have continued to grow significantly every year since liberalisation in 2000. The sub-sector expanded by 2 per cent in 2002 and by a further 3 per cent in the first 8 months of 2003. In 2002, demand for mobile phones in Kenya increased to over one million, representing an increase of 69.6 per cent over the previous year, and by June 2003 the demand for mobile phones had reached 1.6 million, following the government's licensing of an additional mobile service provider.

Kenya's economic performance remains characterised by low and declining savings that lead to poor domestic capital formation. In 2002, gross capital formation fell to its lowest level in several years. However, in 2002 the pattern of investment changed with a substantial increase in investment in manufacturing for export. Capital formation remained low in 2003, albeit slightly improved on 2002, due to an increase in public investment. The pattern of low capital formation in the Kenyan economy is expected to be maintained in 2004 and 2005, requiring the government to make determined efforts to increase domestic savings as economic activity improves.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **21.8** | **15.4** | **14.5** | **13.6** | **14.0** | **14.1** | **14.4** |
| Public | 4.3 | 5.5 | 5.1 | 4.8 | 5.3 | 5.4 | 5.5 |
| Private | 17.5 | 9.8 | 9.4 | 8.8 | 8.6 | 8.7 | 8.9 |
| **Consumption** | **84.1** | **94.1** | **96.8** | **90.5** | **88.4** | **87.4** | **86.5** |
| Public | 14.8 | 17.5 | 19.1 | 19.0 | 18.6 | 18.3 | 18.1 |
| Private | 69.3 | 76.6 | 77.7 | 71.5 | 69.9 | 69.1 | 68.5 |
| **External sector** | **-5.9** | **-9.4** | **-11.3** | **-4.1** | **-2.4** | **-1.6** | **-1.0** |
| Exports | 32.8 | 26.6 | 26.5 | 26.5 | 26.7 | 27.2 | 28.1 |
| Imports | -38.7 | -36.0 | -37.9 | -30.6 | -29.1 | -28.8 | -29.1 |

**Source:** IMF data; projections based on authors' calculations.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Within its broad Economic Recovery Strategy (ERS), the government's fiscal policy objective is to spend to stimulate growth, and to provide tax and other incentives to producers. However, the recent expansionary fiscal policy has worsened the fiscal deficit. High domestic debt remains a major challenge for fiscal stability, having resulted from the government's need to finance its deficits entirely from domestic sources. Domestic debt has risen sharply to represent an estimated 11.4 per cent of GDP in 2002/03. In addition, the government has bills and liabilities pending. Net servicing charges on domestic debt almost doubled between 2001/02 and 2002/03. Under the ERS Kenya expects a significant expansion in donor assistance, which would facilitate a reduction in the domestic debt. Such a reduction would reduce interest payments thereby freeing up budgetary resources for priority poverty spending. The overall budget deficit increased to 4.9 per cent of GDP in 2002/03 from 3.1 per cent of GDP in the preceding year. This reflected under-performance in tax revenue associated with lower than expected economic growth. It also reflected delays in structural reforms, particularly in the programmed privatisation of Telcom Kenya Ltd. and Kenya Re-insurance. The deficit can also be attributed to additional expenditure on free primary education in public schools and salary adjustments for public servants. The government expects to maintain an expansionary fiscal programme under the ERS, particularly to serve the needs of the education and health services. However, it is anticipated that the budget outcome will improve in 2003/04 thanks to an increase in grants, with the overall budget deficit projected to fall to 3.7 per cent of GDP before increasing to 4.4 per cent of GDP in 2004/05.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

In 2002/03, total government revenue was 23.2 per cent of GDP. Government receipts from taxation increased from 17.5 per cent of GDP in 2001/02 to 18.6 per cent in 2002/03. The increase was attributed to continuing efforts by the Kenya Revenue Authority (KRA) to strengthen its tax administration. Income tax and VAT, the rates of which are relatively high, have continued to dominate tax revenue, contributing about 70 per cent of the total. The 2003/04 budget lowered the standard VAT from 18 per cent to 16 per cent. Although this reduction was not expected to affect the structure of government revenue, early indications in 2003/04 are that VAT receipts have fallen significantly below the amounts collected in the similar period in 2002/03. The government's receipts of external grants also increased in 2002/03, reflecting the international goodwill towards Kenya following the successful political transition in 2002.

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

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[b] | **30.2** | **24.5** | **24.0** | **20.9** | **23.2** | **24.8** | **24.7** |
| Tax revenue | 25.1 | 20.4 | 19.8 | 17.5 | 18.6 | 19.2 | 19.2 |
| Grants | 1.3 | 0.6 | 1.1 | 0.6 | 1.4 | 2.4 | 2.2 |
| **Total expenditure and net lending**[b] | **31.8** | **22.8** | **25.5** | **23.9** | **28.1** | **28.5** | **29.2** |
| Current expenditure | 24.8 | 20.1 | 21.5 | 21.1 | 23.8 | 24.1 | 24.5 |
| *Excluding Interest* | *17.5* | *16.3* | *18.6* | *17.9* | *20.0* | *20.0* | *20.3* |
| Wages and salaries | 5.3 | 4.6 | 4.4 | 4.3 | 4.4 | 4.7 | 4.4 |
| Interest | 7.3 | 3.8 | 2.9 | 3.2 | 3.8 | 4.1 | 4.2 |
| Capital expenditure | 6.6 | 2.5 | 3.7 | 2.8 | 4.3 | 4.3 | 4.6 |
| **Primary balance** | **5.8** | **5.5** | **1.4** | **0.2** | **-1.1** | **0.4** | **-0.3** |
| **Overall balance** | **-1.6** | **1.7** | **-1.5** | **-3.1** | **-4.9** | **-3.7** | **-4.4** |

a. Fiscal year begins 1st July.
b. Only major items are reported.
**Source:** Domestic authorities' data; projections based on authors' calculations.



In 2002/03 total government expenditure increased to 28.1 per cent of GDP, from 23.9 per cent in the preceding year. This reflected the priorities of the new government, which placed extra emphasis on financing education and pursuing good governance. In particular, the wage bill rose to constitute about 30 per cent of current expenditure and about 4.4 per cent of GDP, as a result of increases in public servants' wages and salaries in 2002/03. Further increases were registered in 2003/04, raising concerns that the share of wages and salaries in Kenya will be considerably higher than in neighbouring countries. Capital expenditure also increased sharply to 4.3 per cent of GDP in 2002/03 from 2.8 per cent the year before. The increase reflected a renewed emphasis on rehabilitation of physical infrastructure and public assets as a basis for economic recovery. In line with the objectives of refurbishing the social services and capital infrastructure of the country, the government envisages expenditure in 2003/04 to be driven primarily by increased public outlays on education, operations and maintenance, and capital spending. However, while the 2003/04 expenditure programme appears to indicate a reorientation towards poverty reduction, it remains imperative for the government to improve public expenditure management.

Kenya has exercised prudence in its monetary policy, keeping movements in monetary aggregates stable and inflation low. In doing so, however, it has contributed to poor economic growth by crowding out the private sector. In addition, the lending practices of commercial banks have revealed poor risk assessment, leading to high non-performing loan portfolios. The government's ERS expects monetary policy to change and play a critical role in economic development. In line with this objective, within the broad ERS, money supply was targeted to reach 7 per cent in 2003. In its implementation of monetary policy, the Bank of Kenya relies on traditional monetary policy instruments,



© AfDB/OECD 2004

Browse_it Edition • Lecture seule • A OECD Read Only


namely Open Market Operations (OMOs) – including Repurchase Agreements (REPOs) – reserve ratio facilities and discount facilities. The growth of the money supply has, however, remained above set targets. In 2002, broad money supply M3X – the money supply aggregate which the central bank uses to establish intermediate targets for monetary policy – increased by about 10 per cent. In the year to August 2003 M3X expanded by 8.9 per cent. This growth was supported by a 9 per cent expansion in net domestic assets (NDA) and 8.5 per cent increase in net foreign assets (NFA) of the banking system. Movement in NFA in 2003 continued to reflect investor preference to hold foreign currency, which in the election year 2002 had been substantially higher due to cautious investors. The growth in NDA stems largely from domestic credit to government, which, in the year to August 2003, increased by 8.9 per cent to follow an increase of 13 per cent in 2002. During the same period, the government collected about 78 per cent of total credit from the banking system. However, it is worth noting that credit to the private sector increased by 6 per cent in 2002, reversing the decline of 6 per cent in 2001. Credit to the private sector expanded by a further 2.8 per cent in the year to August 2003.

Kenya has been successful in maintaining low and stable inflation. Underlying inflation, which excludes prices of food and energy products, remained at 2 per cent in 2002 and rose only moderately to 2.6 per cent by October 2003. The average rate of inflation was similarly low and stable in 2002, at 2 per cent compared with 5.8 per cent in the preceding year. However, the average rate of inflation rose sharply, reaching 9 per cent in October 2003 as a result of increases in prices of basic foods. It is expected that inflation will remain at the historically low level of 3.3 per cent in both 2004 and 2005.

In general, interest rates have been on a downward trend over the past two years. The average rate on the 91-day Treasury bill dropped from 11.01 per cent in December 2001 to 8.38 per cent in December 2002, and further to about 1.46 per cent in December 2003. This has been due to excess liquidity in the domestic money market, occasioned by limited demand for investment funds due to the prevailing low economic activity. In addition, the government has pursued a deliberate policy of reducing the volume of short maturity domestic debt in preference for longer maturity. Principal money market interest rates have moved downwards in tandem with the decline in the 91-day Treasury bill rate. However, the underlying feature of the interest rate regime remains the large spread between bank lending and deposit rates. The average lending rates of commercial banks declined from 18.3 per cent at the end of 2002 to 14.1 per cent in November 2003, while the average deposit rate dropped from 4.7 per cent to 3.1 per cent over the same period.

The performance of the Kenyan shilling against major international currencies has remained mixed. The nominal effective exchange rate of the shilling fell by about 9 per cent during 2002. In the year to July 2003, the shilling strengthened against the US dollar, gaining about 2 per cent, while it weakened against other major currencies, notably the pound sterling, the euro and the yen. The gains made against the US dollar in the domestic market in 2003 were mainly attributed to positive sentiments that were predominantly hinged on the prospects of good governance by the new government and the likelihood of external aid being resumed. These gains have been further enhanced by the depreciation of the US dollar against all other major currencies. In real terms, the shilling appreciated by 3.4 per cent in the year to July 2003, compared with a depreciation of 1.1 per cent in the year to July 2002, which implied loss in competitiveness for Kenyan exporters.

### External Position

Kenya maintains a liberalised external trade system. The country's trade policy has increasingly become oriented towards the pursuit of regional trade integration, primarily through its membership of COMESA and the EAC). The EAC member states (Kenya, Uganda and Tanzania) signed the protocol establishing the EAC Customs Union on 2 March 2004. The ratification of the protocol is expected to take place in July 2004, paving the way for a new tariff structure. The trade agreement was, however, watered



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

down to accommodate differences between the member states. On the issue of the common external tariff (CET), Uganda unilaterally adopted a 20 per cent tax rate for finished goods while Kenya and Tanzania stuck to the more protectionist 25 per cent. This agreement marked a departure from the original protocol that envisaged a 0- 10- 25 CET tax regime for the regional trading bloc, with zero being the rate for raw materials, 10 per cent being the rate for intermediate goods, and finished goods being taxed at 25 per cent. Kenya's recent trade policy has changed its trading partners – in 2002, the larger proportion of its trade within Africa was with COMESA and EAC partners.

Kenya's external payments position improved in 2002, in a significant contrast from earlier years. In 2002, exports that had previously performed badly grew substantially, while the level of imports fell significantly, due to weaker demand in a slow domestic economy. Consequently, the trade deficit that had been widening since 1996 narrowed from the equivalent of 14.5 per cent of GDP in 2001 to 8.1 per cent in 2002. This helped the current account move from a deficit of 5 per cent of GDP in 2001 to a small surplus of 0.5 per cent of GDP in 2002. In 2002, total export receipts increased by 14.7 per cent, with tea, horticulture and coffee jointly accounting for 52.7 per cent of the total export earnings. The improvement in export earnings in 2002 was accounted for mainly by horticulture, as earnings from tea stagnated and those from coffee fell by about 12.3 per cent. Earnings from horticulture increased by about 42.8 per cent in 2002 as against the decline of 6.5 per cent the year before. Other notable increases in export earnings were in tobacco products, articles of plastic, sugar confectionery and animals and vegetable oils. Total import value declined by 11.2 per cent in 2002. Imported crude petroleum and refined petroleum products dropped by 23.2 per cent and 15.2 per cent respectively. Similarly, imports of iron and steel and industrial machinery decreased by 7.1 per cent and 32.8 per cent respectively. Positive trends in the trade balance in 2002 appeared to be reversed in 2003. In the year to August 2003, the current account deficit had widened to about 1.4 per cent of GDP, following deterioration in the trade account as a result of a 14.7 per cent rise in the value of imports, which more than offset a 13.2 per cent increase in the value of exports. The external account is expected to stabilise in 2004 and 2005, as a result of increased exports, leading to an improved current account balance.



Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -8.2 | -12.1 | -14.5 | -8.1 | -8.5 | -8.0 | -7.8 |
| Exports of goods (f.o.b.) | 21.3 | 17.0 | 16.8 | 17.6 | 16.0 | 16.1 | 16.5 |
| Imports of goods (f.o.b.) | -29.5 | -29.1 | -31.3 | -25.7 | -24.4 | -24.1 | -24.4 |
| Services | 1.7 | 2.6 | 3.2 | 4.0 | | | |
| Factor income | -3.5 | -1.3 | -0.8 | -0.5 | | | |
| Current transfers | 4.4 | 8.8 | 7.2 | 5.1 | | | |
| **Current account balance** | **-5.6** | **-1.9** | **-5.0** | **0.5** | | | |

**Source:** Domestic authorities' data; projections based on authors' calculations.

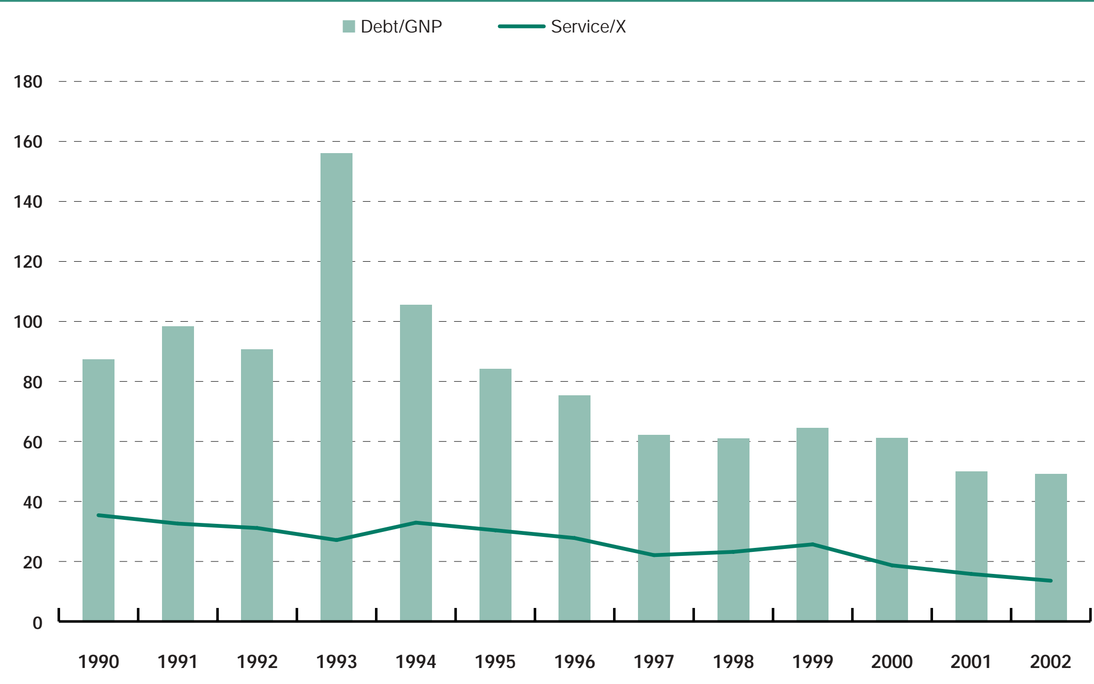
Kenya's total external debt declined by 2 per cent to stand at $4.78 billion at the end of 2002. Multilateral organisations continued to be the leading creditors, accounting for 62 per cent of total debt, while bilateral creditors accounted for 32.2 per cent. The remaining 5.8 per cent was owed to commercial banks. Japan and France remained the leading bilateral creditors, while the IDA and the African Development Bank, Kenya's leading development partners for many years, were the dominant multilateral creditors. Total external debt was equivalent to 49.2 per cent of GNP in 2002, in line with a downward trend from about 75.4 per cent of GNP in 1996 to 61.1per cent of GNP in 2001. The debt service ratio has also declined from about 27.8 per cent in 1996 to 13.6 per cent in 2002. Other key debt ratios and debt service burden indicators are also relatively low and by HIPC initiative criteria, Kenya's external debt is sustainable.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** World Bank.

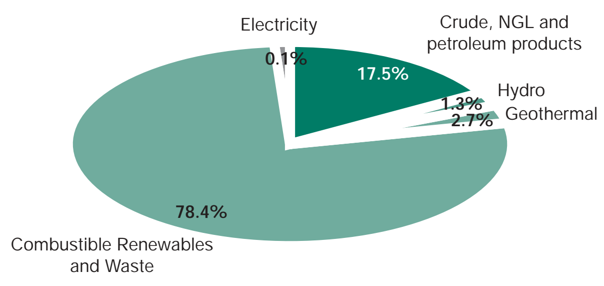


## Structural Issues

Kenya has undertaken structural reforms since 1990 in its continuing effort to diversify the economy and attract investment. Earlier reforms included the liberalisation of commodity prices, interest rates and exchange rates, the abolition of import licensing and of exchange controls, and rationalisation of the import tariff structure. A Civil Service Reform Programme has seen the downsizing of the number of core civil servants from 239 000 in 1995 to 193 000 in 2002. However, governance-related problems have deterred investment and, as a result, stifled growth.

Kenya's major energy supply sources are biomass, petroleum, hydropower, geothermal power and, to a limited extent, wind and solar power. The country has no commercially exploitable oil and coal deposits and has to depend on imports to meet its commercial energy requirements. There is, however, unconfirmed potential of oil deposits.

Figure 6 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

OECD Browse_it Edition • Read Only • Lecture seule

Biomass is Kenya's main source of energy, contributing up to 80 per cent of Kenya's final energy demand, according to a 2002 survey undertaken by the Ministry of Energy. However, there is a lack of accurate data regarding the use of biomass and its environmental impact. By the year 2005, biomass contribution is projected to be about 66 per cent. In the household, agricultural and industrial sectors, biomass supplies are estimated at 93, 89 and 45 per cent respectively. Most of the supply comes in the form of firewood, charcoal or agricultural waste. Most Kenyans use firewood or charcoal for cooking and this is having a visible impact on Kenya's dry land savannah and forests, especially in fragile ecosystems and near refugee camps. There are indications of negative impacts on water catchment areas, as well as reduced water access and capacity for hydro electricity generation. There has been no overall policy on biomass from previous governments and laws that have been applied were both incoherent and not enforced. It has, for example, been illegal to produce charcoal but legal to sell it in Kenya.



A ready supply of commercial energy is vital to Kenya's ambition to become an industrialised nation by the year 2025. The mismanagement of the energy supply and the resulting unreliability and high costs have led to great losses for Kenyan businesses. Problems emanating from energy supply have continued to make Kenyan goods uncompetitive in both local and international markets, as producers have begun generating their own supplies.

Installed electricity capacity is some 1 094 MW, the largest proportion (64 per cent) of which, produced principally by the State-owned Kenya Electricity Generating Company, comes from hydropower stations at dams along the upper Tana River, as well as from the Turkwel Gorge Dam in the west. Diesel and geothermal power stations and electricity imported from Uganda make up the rest of the supply. The Kenyan government plans to diversify power-generation in a bid to reduce the adverse effects of drought on supply. To this end, it has allowed Independent Power Producers (IPPs) since 1998. However, IPPs feel that they have not been offered a fair price for electricity under power purchase agreements (PPAs), and the existing legal and regulatory framework has acted as a hindrance to the development of reliable, secure and diversified supplies of electricity.

As part of Kenya's drive to reduce its dependence on imported power from Uganda, the government has initiated plans to connect its national power grid from Nairobi to Tanzania through Arusha in northeastern Tanzania. The long-term plan reportedly also includes connecting the power grid to Zambia via Tanzania, covering a distance of 3 000 kilometres. The government signed an agreement to this effect in 2003. The Kenyan government further plans to expand the storage capacity of the Masinga Dam, so that hydroelectric generation from the dam can be guaranteed for longer periods. Kenya plans to install six geothermal power plants with a combined capacity of 3 894 MW, while also exploring wind and solar options. The town of Marsabit in northern Kenya has been identified as a possible location for a wind-powered electricity generation plant.

The electricity distribution sub-sector has been under severe strain in terms of security of supply – huge losses (about 20.5 per cent) are experienced through the grid, there are frequent interruptions in electricity supply, the Kenya Power and Lighting Company (KPLC) faces difficulties in financing investment, including for maintenance. Consumers in Kenya also experience high customer tariffs, partly due to unpaid bills by large consumers.

Although the electricity sector is now liberalised, creating an "enabling environment" by changing the legal framework remains crucial. In particular, the Electricity Regulatory Board (ERB) needs to be strengthened so as to make it independent, transparent and impartial, and so avoid political interference regarding PPAs with IPPs. Besides, the monopoly of the KPLC on power distribution needs to be reviewed.

A major issue in the energy supply situation in the country is the lack of progress that has been made regarding electrification of rural areas and access to electricity in urban slums. It is estimated that less than 5 per cent of the rural population has access to electricity. The Rural Electrification Programme and associated Fund set up almost 30 years ago have failed. It is now



© AfDB/OECD 2004

A Browse_it Edition • Read Only • Lecteurs • OECD


recognised that the programme needs to be overhauled and renewed. The current cross-subsidy in favour of rural electrification (based on a levy of 5 per cent on electricity bills) has failed due to corruption. The government's strategy for tackling the rural energy access issue includes the following measures:

- reviewing and renewing the rural electrification programmes to attract partners including donors, private sector, consumers and communities;
- opening up the programme for the promotion of off-grid solutions;
- ensuring that the programme is transparent, accountable and meets its aims.

Along with its neighbours, Uganda and Tanzania, Kenya is heavily dependent on imported petroleum, which constitutes approximately 75 per cent of the commercial energy required to facilitate economic growth and development in the country. The three East African countries are working together to promote investment opportunities in petroleum exploration in the region. Though modest exploration for oil has taken place in Kenya, recent seismic tests have revealed that the coastal region may have high potential for natural gas.

Kenya Pipeline Company Ltd (KPC) transports approximately 90 per cent of the petroleum products consumed in Kenya's domestic market. As the owner and operator of the only refined petroleum products pipeline in East Africa, KPC is also the dominant player in the regional energy sector, exporting to Uganda, Tanzania, Rwanda, Burundi, the Democratic Republic of Congo and Sudan.

The government is in the process of formulating a National Energy Policy Paper, in order to prepare a comprehensive reform programme in the energy sector, including amendments to the Electric Power Act 1997, a complete auditing of the use of public funds in the sector, privatisation of state-run companies, and the promotion of renewable sources of energy, notably for the rural and urban poor.

The government's process of reducing its role in commercial activities through its privatisation programme, which has been going since 1992, has made some progress, though there remains a long way to go. As of mid-2003, a total of 207 non-strategic commercial enterprises had been privatised and 33 strategic corporations restructured. The new administration is reorienting the privatisation programme in order to allow for wider participation and consultation with stakeholders. The government has prepared a privatisation bill (2003) to provide the legal framework for privatisation of the remaining public enterprises. The major enterprises yet to be sold include Kenya Telcom, Kenya Power and Lighting Company (KPLC), Kenya Ports Authority (KPA), Kenya railways and Kenya Commercial Bank (KCB). A Privatisation Commission will be set up under the privatisation bill to oversee and implement the Programme.

Financial sector reforms undertaken have led to a well-diversified sector, with 43 commercial banks, 2 non-bank financial institutions, 2 mortgage finance companies, 4 building societies and 48 foreign exchange bureaux as at June 2003. However, only two foreign banks, Barclays and Standard Chartered, and two parastatal banks, Kenya Commercial Bank and National Bank of Kenya, dominate the banking sector, controlling about 60 per cent of total assets. Besides, the performance of the banking sector continues to be constrained by *i)* non-performing loans (NPLs) and poor asset quality; *ii)* absence of effective competition, which has led to wide interest spread; *iii)* absence of strong and vibrant institutions for long term capital; and *iv)* a legal system characterised by long delays in the determination of commercial disputes and enforcement of contracts. The share of non-performing loans (NPLs) in total loans was 29.4 per cent in May 2003. Kenya's current climate of low Treasury bill interest rates, when set against the large NPL problem, carries major risks. It could lead to widespread bank failure, because government securities comprise a substantial proportion of bank assets. The persistent poor quality of assets has remained mainly in six public sector institutions that account for 58 per cent of the industry's NPLs. This is attributed to poor risk management, the poor state of the economy, the ineffective administration of justice,



© AfDB/OECD 2004

OECD Browse_it Edition • For Read Only • Lecture seule

and external pressure by dominant shareholders. In 2003, the government mandated the central bank to explore the feasibility of forming a Non-Performing Loans Agency to help clean up bank balance sheets and commission a tribunal with judicial powers to deal with non-performing loans. This is a step in the right direction. The central bank has already commissioned a bank-wide study, the outcome of which will contribute to the implementation framework for putting NPL portfolios as off-balance sheet items for the institutions.

Reforms have also been introduced to improve the functioning of the Nairobi Stock Exchange (NSE). In 2002, the capital markets authority began implementing its strategic plan for 2002-2005, involving the fundamental reorganisation of stock market operations. Key improvements include the implementation of a central depository and automated trading systems, to improve and enhance trading, delivery, registration, settlement and depository formations in the market. Other measures have been implemented to provide incentives for investment, including corporate tax reductions and authorisation for foreign investors to acquire up to 75 per cent of the shared capital of a listed company.



## Political and Social Context

The political climate of Kenya, which since independence in 1963 was dominated by the Kenya African National Union (KANU), changed in 2002. Since the legalisation of political pluralism in 1992, multi-party elections held in 1992 and 1997 had both been won by KANU. The third multi-party election held in December 2002 brought together the main opposition parties to KANU in the National Rainbow Coalition (NARC), which won the election. Although the 2002 elections were preceded by economic and political uncertainties, and the failure to conclude the consultation process for the New Constitution, the elections were deemed relatively peaceful and fair. Since the transition in 2002, the country's participatory democracy and political pluralism appear to be stable and working well.

The NARC government has given recognition to the immense harm that poor governance and the breakdown of law and order have done to Kenya, and is taking important positive measures to improve both economic and institutional dimensions of governance. The government has articulated various reforms in public administration, national security and law and order under the Economic Recovery Strategy launched in June 2003. So far, the government has also expeditiously implemented the provisions of the Anti Corruption and Economic Crimes Act and the Public Officer's Ethics Act that were introduced in May 2003. Significant actions taken since then include the appointment of the head of Transparency International's Kenya Chapter to lead the fight against graft, and the declaration of the assets of the President and his Cabinet. Other policy initiatives already undertaken to address instances of bad governance include: *i)* appointing a task force on public collections; *ii)* appointing a committee on truth, justice and reconciliation; *iii)* appointing several commissions, including a judicial commission on the Goldenberg scandal; and *iv)* relaunching the constitutional review process, which was stalled in the run up to the 2002 general elections. In addition, the government has committed itself to presenting the Procurement and Disposal of Public Assets bill, and the Management and Accountability bill to parliament during 2003/04. Other important proposals on which the government is basing its drive for good governance include *i)* a review and enactment of laws to deal with modern crimes such as terrorism, money laundering, cyber-crime, and tax evasion; *ii)* the strengthening of security agencies with interventions covering training, equipment, recruitment and increased collaboration with neighbouring countries; and, *iii)* improvement of the efficiency and effectiveness of the legal and judiciary process. The government is also committed to enhancing local governance through a devolution process arising from the ongoing Constitutional review process.

Kenya's recent poor economic performance has translated into increased poverty and the aggravation of the country's unemployment problem. The 2002 per capita income of $360 is lower than it was a decade ago. The number of Kenyans classified as poor has increased from 11.3 million (48.4 per cent of the population) in



© AfDB/OECD 2004

A OECD Browse_it Edition • Lecture seule • Read Only


1990 to 17.1 million (55.4 per cent of the population) in 2002. Poverty is particularly severe in the Arid and Semi-Arid Lands (ASAL) region, where over 65 per cent of the population is classified as poor. In some of the region's poorest districts, the poverty level is over 80 per cent. Kenya has about 2 million persons officially classified as unemployed, representing about 14.6 per cent of the labour force. A most worrying figure is that young people constitute about 45 per cent of the total number of unemployed. In addition, disguised unemployment, particularly in the public sector, is a serious problem, whilst child labour is an emerging and disturbing phenomenon. High unemployment, particularly in the formal sector, is attributed to low labour productivity, which is mainly due to low education and skills and labour market rigidities.

The social dimension of poverty in Kenya can be seen from the proportion of the population with access to education and health. Health standards in Kenya are relatively low. In 2002, life expectancy at birth was at 46 years, while the infant mortality rate (IMR) and under-5 mortality rate were estimated at 74 and 112 per 1000 live births respectively. Maternal mortality rate was at 590 per 100 000 live births in 2002. Health standards of large proportions of the population have been undermined by the HIV/AIDS epidemic, the increasing incidence of malaria and tuberculosis, and the worsening socio-economic situation and poverty levels. A further adverse effect on the health situation stems from the recent brain drain in the health sector. As a result, some medical personnel, especially nurses and doctors, have left Kenya to work in the United States, Britain and South Africa. Kenya continues, however, to train substantial numbers of medical personnel. The government's recent intensification of a campaign against the HIV/AIDS epidemic appears to be bearing fruit. According to the Kenya Economic Survey, the HIV prevalence rate has continued to slow down nationally from 13.4 per cent in 2000 through 13.0 per cent in 2001 to 10.2 per cent in 2002. A similar trend has been observed in both rural and urban areas, though the urban prevalence rates still remain above the rural rates.

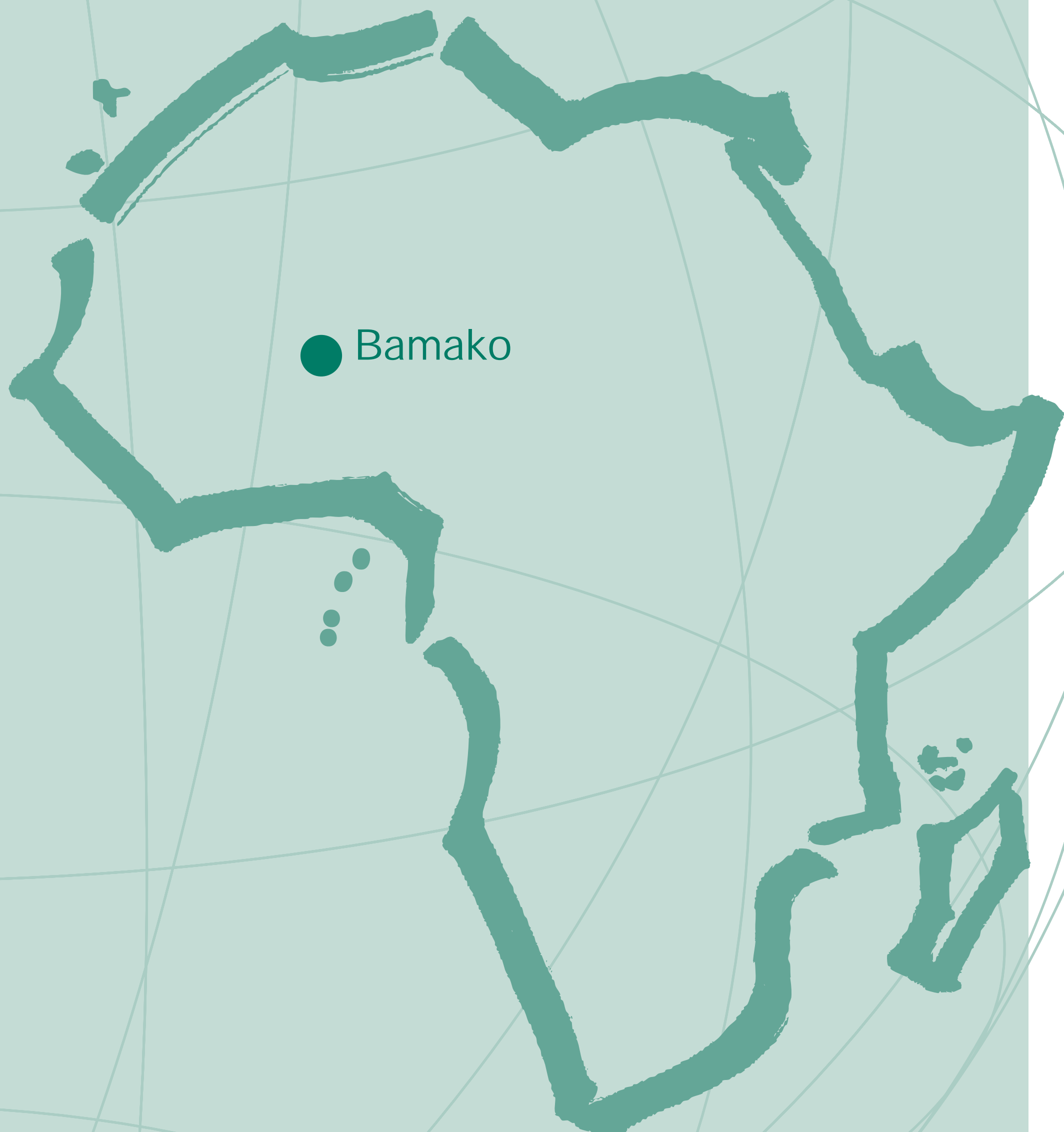
In 2003, levies and extra tuition to be met by parents were abolished and a free primary education programme in public schools was implemented, in order to promote country-wide access to education. The government's education policies received major commitments of support from the DFID and the World Bank, to meet the basic cost of teaching and learning materials, wages of critical non-teaching staff, and co-curricular activities. The primary-school gross enrolment and net enrolment rates were 90.8 per cent and 74.6 per cent respectively in 2002/03. The education system continues to grapple with the underlying challenges of non-enrolment, high levels of dropout and low completion rates, particularly among girls. Enrolment in primary schools continued to show gender imbalances; for example, while the transition of boys from standard 4 in 1998 to standard 8 in 2002 was 79.4 per cent, that of girls was 75 per cent. The evidence also indicates that only 55.8 per cent of candidates in the 2002 Kenya Certificate of Primary Education (KCPE) were admitted to form 1 in 2003, giving a transition rate of 46.2 per cent.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

# Mali




**key figures**

- Land area, thousands of km² 1 240
- Population, thousands (2002) 12 623
- GDP per capita, $ (2002) 262
- Life expectancy (2000-2005) 48.6
- Illiteracy rate (2002) 72.8

An OECD Browse_it Edition • Read Only • Lecture seule

# Mali

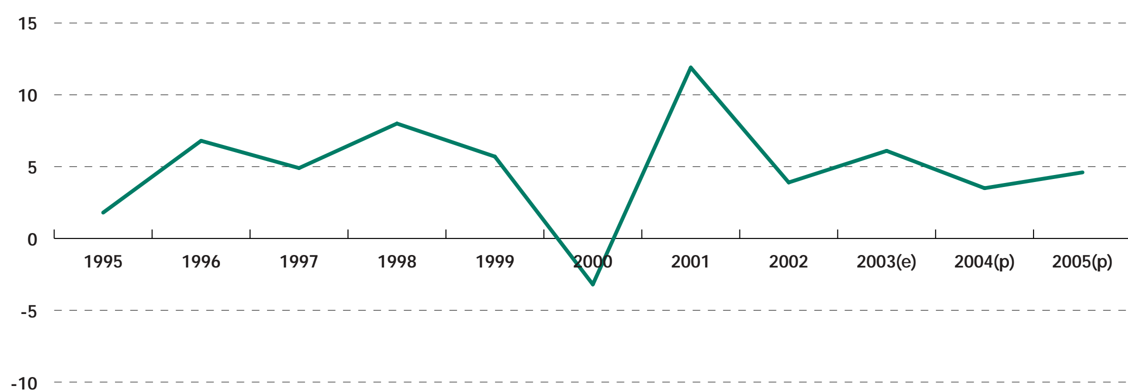
MALI IS A HAVEN OF PEACE in a politically-troubled region and its new president, Amadou Toumani Toure, is popular at home and abroad for his conciliatory policies. His credibility and consensual management are essential for tackling the country's economic problems. Major reform of key sectors such as cotton and infrastructure (energy, transport and telecommunications) is underway as part of efforts to fight poverty. Participation and incentives for the private sector are needed if the country is to diversify and modernise production and improve living standards.

Short-term economic results are very unpredictable as the dominant primary sector is at the mercy of the weather, and economic diversification is negligible. Mali had a turning point in 2002, when it hosted the Africa Nations Cup football tournament and held the first parliamentary and presidential elections resulting in a peaceful handover of power. A record cotton and cereals harvest in 2003/04 resulted in overall growth of around 6.1 per cent, despite the weak performance of traditional exports and renewed troubles in neighbouring Côte d'Ivoire. The return to normal harvests in 2004 and 2005 should lead to slower growth of around 3.5 and 4.6 per cent, respectively.

**Mali has managed its first democratic political transition peacefully but faces major reforms in the key sectors of cotton and infrastructure.**



Figure 1 **- Real GDP Growth**




**Source:** *Direction nationale de la statistique et de l'informatique* data; projections based on authors' calculations.

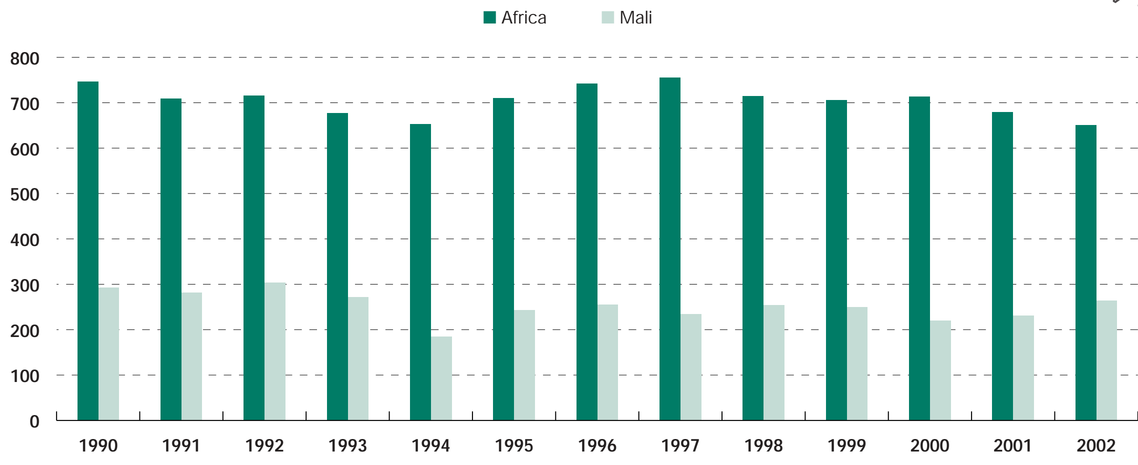
## Recent Economic Developments

Agriculture, livestock, fishing and forestry contributed 35 per cent to GDP in 2002. Despite enormous progress in agriculture over the past decade – making the country self-sufficient in food and a potential cereals exporter – production is still focused on cotton and a few key grains. The state of farming also continues to have a heavy influence on other sectors, especially food-processing (such as milling), which depend mostly on agricultural inputs.

Despite problems in the cotton sector due to unstable world prices, rainfall and internal difficulties at the national textile company CMDT (which sparked a strike by growers in 2000/01 that halved annual production that year), cotton output has doubled since the early 1990s to make Mali the leading producer in sub-Saharan Africa and the world's eighth largest exporter. Quality is high as well, and because production costs are low, cotton is a very competitive export. After the record 2001/02 harvest of 571 000 tonnes, poor rainfall cut production in 2002/03 to 439 751 tonnes.

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

The 2003/04 harvest was much better at 612 537 tonnes, thanks to good weather.

Fertiliser supply and transport of harvested cotton are still major problems though. The CMDT is being privatised but disorganisation among producers, and especially their lack of capital, meant input suppliers were not chosen. Privatisation of cottonseed transportation was also unsatisfactory owing to high prices charged by new operators and the dilapidated state of their lorry fleets.

The crisis in Côte d'Ivoire occasionally closes the route from Bamako to Abidjan necessitating close management of convoys (matching outgoing cotton shipments with incoming inputs and setting up a special security escort). The uncertain outcome of the crisis, the reform problems and expected medium-term sluggishness in cotton prices all mean that production will not continue the expansionary trend it has followed since the early 1990s. Output will thus remain at about 550 000 tonnes.

Cereals production was 2 530 000 tonnes in 2002/03, about 279 000 tonnes short of national requirements. The government made up the deficit with imports (including 40 000 tonnes of rice exempted from VAT) and intervened directly in the local market by distributing 35 000 tonnes of grain to head off shortages and higher prices. Good rainfall produced a 2003/04 harvest a third bigger than the previous year.



Rice output has steadily increased since 1998, with a 2001/02 harvest of 930 000 tonnes, a quarter up on the previous year, making the country self-sufficient in rice. After a mediocre 2002/03 harvest, the 2003/04 harvest improved again, reaching 967 000 tonnes and putting Mali in a position to be a net exporter. This good performance was due to more than doubling the area planted over ten years, from 200 000 ha (1990/91) to 465 000 ha (2001/02). Yields sharply improved also, exceeding 2 tonnes per hectare and up to 6 tonnes per hectare in the Niger River Authority area (which accounts for 40 per cent of total production on 100 000 ha).

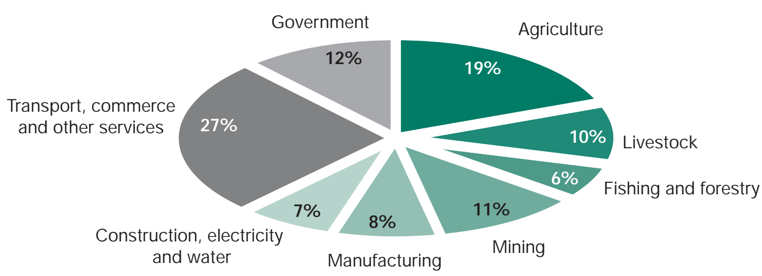
The rice sector has also benefited greatly from liberalisation begun in the 1980s and the 1994 devaluation of the CFA franc, which made rice more competitive. Despite the good results, lack of infrastructure, chronic shortages in some parts of the country (which push the government to limit exports), plus regional instability all reduce the trade possibilities for rice, even though the sub-region is a net importer. Ironically, because Mali's good output cannot all be sold, prices to farmers may fall, reducing their purchasing power and so discouraging them from improving yields in future years.



© AfDB/OECD 2004

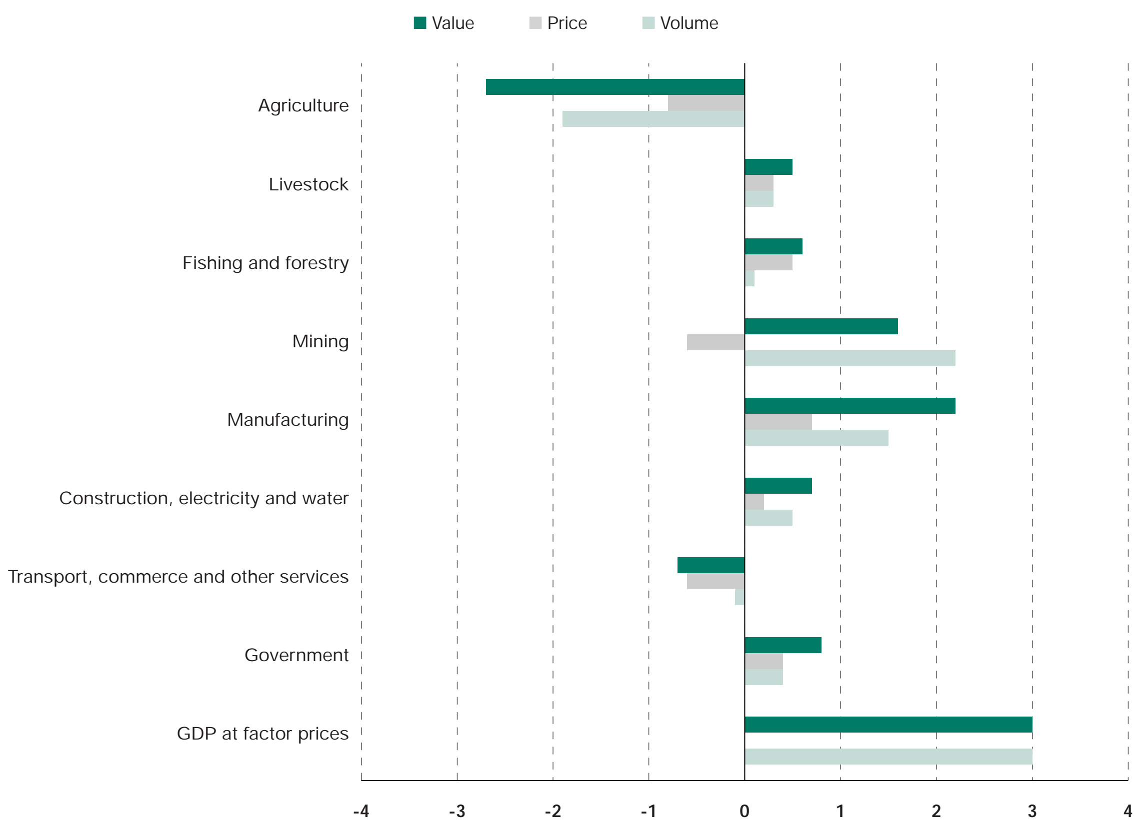
OECD Browse_it Edition • Read Only • An OECD Lecture seule

## Figure 3 - GDP by Sector in 2002




**Source:** Authors' estimates based on *Direction nationale de la statistique et de l'informatique* data.

## Figure 4 - Sectoral Contribution to GDP Growth in 2002




**Note:** Mali's national accounting includes the results of harvests in the following year's GDP.
**Source:** Authors' estimates based on *Direction nationale de la statistique et de l'informatique* data.

In contrast, the gold sector has expanded rapidly under the 1991 mining law, which was updated in 1999 and is now being revised again. The opening of mines at Sadiola (1997), Morila (October 2000) and Yatela (May 2001) confirmed Mali as Africa's third biggest producer, after South Africa and Ghana. No new deposits were opened up in 2002, but unexpected discovery of high-grade ore at Morila led to record national production of 63.7 tonnes. Output fell to a more normal 53 tonnes in 2003. Short-term prospects are good thanks to continuing high world prices. The Tabakoto mine is expected to start up in June 2004. The opening of mines at Kodieran and Kalana has been delayed until 2005 and Segala and Loulo will open even later than that.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

Figure 5 - **Cotton Production and Prices in Mali**

**Note:** Production and prices to growers refer to 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 and calculated as a calendar year average (year n+1 for a crop in n/n+1).

**Source:** *Direction nationale de la statistique et de l'informatique* and authors' calculations based on price data from the World Bank and exchange rates from the OECD.



In recognition of the haphazard nature of discoveries and the sector's strong dependence on changing world prices and multinational investors, the government has moved to support local producers in two ways. For one, a mineral development programme has been set up to simplify the procedure for opening small mines, to provide easier access to funding, and to facilitate partnerships with foreign firms. Secondly, the government, supported by the World Bank, plans to encourage alluvial mining, including helping women involved in its peripheral small businesses and food supply.

The manufacturing and service sectors did very well in 2001 and 2002 thanks to Mali's hosting of the Africa Nations Cup football tournament. Normality returned

Table 1 - **Gold Production** (tonnes)

| Mines | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 (e) | 2004 (p) | 2005 (p) |
|---|---|---|---|---|---|---|---|---|---|
| Syama | 4.1 | 4.8 | 6.1 | 5.7 | 2.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sadiola | 12.3 | 16.3 | 17.6 | 16.8 | 20.8 | 16.2 | 14.7 | 16.6 | 16.6 |
| Morila | | | | 4.2 | 23.4 | 38.9 | 30.6 | 18.8 | 12.5 |
| Yatela | | | | | 5.0 | 8.6 | 7.7 | 5.4 | 11.8 |
| Kodieran | | | | | | | | | 3.4[a] |
| Tabakoto | | | | | | | | 1.7 | 3.4[a] |
| Segala | | | | | | | | | |
| Kalana | | | | | | | | | 0.5[a] |
| Loulo | | | | | | | | | |
| **Total** | **16.4** | **21.2** | **23.7** | **26.7** | **51.3** | **63.7** | **53.1** | **42.5** | **48.3** |

a. Tentatively, since opening depends to an extent on world prices.

**Note:** Excluding alluvial production (3 tonnes)

**Source:** Ministry of Mines, Energy and Water.

 © AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only


in 2003 and the mediocre 2002/03 cotton harvest slowed activity at ginning factories. Manufacturing was also depressed by the knock-on effects of the Ivorian crisis and the industrial production index fell 20 per cent in the first nine months of 2003 year-on-year. The launch of a new telecommunications company, Ikatel, had a positive impact on the transport and telecommunications sub-sector.

Table 2 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **25.5** | **19.9** | **24.5** | **18.8** | **19.7** | **19.7** | **20.3** |
| Public | 6.4 | 6.6 | 7.6 | 7.5 | 8.1 | 8.2 | 8.4 |
| Private | 19 | 13.3 | 16.8 | 11.3 | 11.7 | 11.5 | 12.0 |
| **Consumption** | **91.7** | **90.1** | **83.6** | **82.1** | **86.6** | **85.4** | **86.0** |
| Public | 19.4 | 16.5 | 15.7 | 16.0 | 16.1 | 15.5 | 15.5 |
| Private | 72.3 | 73.6 | 67.9 | 66.1 | 70.5 | 69.9 | 70.5 |
| **External sector** | **-17.2** | **-10.0** | **-8.1** | **-0.9** | **-6.3** | **-5.1** | **-6.4** |
| Exports | 19.2 | 22.9 | 26.3 | 28.7 | 23.3 | 22.8 | 21.3 |
| Imports | -36.4 | -32.9 | -34.3 | -29.6 | -29.6 | -27.9 | -27.7 |

**Source:** *Direction nationale de la statistique et de l'informatique* data; projections based on authors' calculations.[1]

Growth in 2002 was mainly fed by gold and cotton exports. Imports fell significantly because of supply problems from Côte d'Ivoire and investment also shrank with the end of the Africa Nations Cup. Exports flagged in 2003 because of the smaller cotton harvest and lower gold production. Consumption was very strong in 2003 due to the vitality in the manufacturing sector during 2001 and 2002, and to strong agricultural performances, which thereafter led to the growth of rural income.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Since the UEMOA convergence, stability, growth and solidarity agreement came into effect in December 1999, macroeconomic policy has aimed to comply with its convergence criteria to prepare for economic integration in 2005. Mali complied with two primary criteria in 2002 (positive basic budget balance and no debt arrears) and two secondary ones (a wage bill less than 35 per cent of tax revenue and more than 20 per cent of capital spending internal funded). It managed to comply with all the primary criteria in 2003, despite regional problems. However, maintaining a basic budget balance cannot be taken for granted, in light of the weak fiscal base and the pressure anti-poverty measures exert on the budget.

The government has greatly improved its management of public finances since the early 1990s and with UEMOA encouragement has introduced a number of reforms aimed at streamlining the tax structure. These include: introducing a single-rate VAT of 18 per cent, a combined tax for small businesses, a single taxpayer identity number and a common external tariff. It has also computerised the customs service and reformed taxation of petroleum products.

As a result, customs revenue rose by an average 15.9 per cent a year between 1994 and 2002 and overall tax revenue doubled between 1996 and 2002 – from 62.8 billion CFA francs ($123 million) to 122.7 billion CFA francs ($176 million). The chain of budgetary expenditure was also made more open. New budget nomenclature decreed by UEMOA and introduced in April 2003 enabled the introduction of a method of budget programmes, based on medium-term spending

1. To meet UEMOA's criteria for comparing country statistics, Mali adopted a new accounting system in 2002, under which harvest n/n+1 is now counted in n instead of n+1.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

Table 3 - **Public Finances** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants** [a] | **18.5** | **19.1** | **18.3** | **20.6** | **21.6** | **19.3** | **19.1** |
| Tax revenue | 9.7 | 12.4 | 12.8 | 14.1 | 14.1 | 13.6 | 13.5 |
| Grants | 6.8 | 4.8 | 3.8 | 3.7 | 4.6 | 2.9 | 2.8 |
| **Total expenditure and net lending** [a] | **21.4** | **22.0** | **21.5** | **24.3** | **25.0** | **24.4** | **24.6** |
| Current expenditure | 11.2 | 11.9 | 13.9 | 14.9 | 14.8 | 14.0 | 14.1 |
| *Excluding interest* | *9.9* | *11.1* | *13.3* | *14.1* | *13.8* | *13.3* | *13.3* |
| Wages and salaries | 3.6 | 3.9 | 3.9 | 4.1 | 4.5 | 4.4 | 4.5 |
| Interest payments | 1.3 | 0.8 | 0.7 | 0.8 | 1.0 | 0.7 | 0.7 |
| Capital expenditure | 11.3 | 10.3 | 8.1 | 9.6 | 10.4 | 10.5 | 10.7 |
| **Primary balance** | **-1.7** | **-2.1** | **-2.6** | **-2.8** | **-2.4** | **-4.4** | **-4.7** |
| **Overall balance** | **-3.0** | **-2.9** | **-3.2** | **-3.6** | **-3.4** | **-5.2** | **-5.4** |

a. Only major items are reported.
**Source:** Ministry of Economy and Finance and IMF data; projections based on authors' calculations.

plans. It also allowed for more transparency in anti-poverty project expenditure and identifying the origin of funds (internal, external, HIPC). Aid reform was also started to increase budget support (as opposed to aid to projects). Despite these efforts, the execution rate of investment and development projects remained low.



Budgetary discipline has put Mali on good terms with the Bretton Woods institutions and despite the country reaching HIPC completion-point, the IMF decided in March 2004 to grant a new poverty reduction and growth facility (PRGF) for 2004-06 to help the country consolidate its gains and complete its reform programme, especially in the cotton sector.

The strong economic recovery that followed the good 2001/02 harvests and buoyant mining and construction sectors significantly boosted government revenue in 2002, despite the noticeable impact of the Ivorian crisis at the end of that year. The tax burden rose to 14.1 per cent, up one percentage point from 2001. Non-tax revenue increased by 11 billion CFA francs ($15 million) to 31.2 billion CFA francs ($45 million) due to payments by gold mining firms. Current expenditure rose by less than expected because of disbursement problems.

The ongoing conflict in Côte d'Ivoire meant that the 2003 budget had to be revised downward after being adopted, because of a sharp decline in balances. The budgetary cost of the Ivorian crisis to Mali was put at 60 billion CFA francs ($102 million), leaving the country with a funding shortfall of some 35 billion CFA francs ($60 million), partly made up for by World Bank budgetary aid. Higher revenue was still expected because of better tax collection, the end of tax exemptions for gold firms, these companies' higher profits, and a strong rise in grants to dull the impact of the Ivorian crisis. Temporary measures which reduced government revenue included tax exemption for firms hit by the Ivorian crisis and postponement until May 2003 of a tax on petroleum products.

Expenditure rose in 2003 due to greater anti-poverty efforts, electricity subsidies and arranging alternatives to the blocked Bamako-Abidjan route. Investment thus increased 10 per cent by value between 2002 and 2003. HIPC funds were mainly used for operating costs however, (especially to pay contract workers) because of the acute shortage of labour in social sectors, which led to a sharp rise in the wage bill. The government also gave a 3.8 billion CFA franc ($6.5 million) subsidy to the state energy company EDM to make up for a tariff freeze imposed on it. Layoffs as part of structural reforms (notably of public bodies) cost about 20 billion CFA francs ($34 million).

Wages and public investment are expected to increase further in 2004 and 2005 in line with anti-poverty efforts contributing to bringing capital expenditure to above 10.5 per cent of GDP and the wage bill to 4.5 per cent of GDP. Tax revenue will probably not rise as

 © AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

much, so the budget deficit will deteriorate in 2004 before levelling off in 2005 above 5 per cent of GDP.

Inflation was kept to manageable levels between 1997 and 2000, but rose to 5.2 per cent in 2001 due to a large rise in credits to the economy associated with the Africa Nations Cup tournament and increased prices of cereals, water and electricity. Despite a better cereals harvest in 2002, inflation was still 5 per cent, the highest in the UEMOA area. However, despite continuing trouble in Côte d'Ivoire, inflation slowed sharply in 2003 resulting in an estimated negative rate of -1.3 per cent.

This unexpected success was mainly due to the predominance of food products, especially cereals, in the consumer price index. Good harvests in 2001/02 and 2003/04 and effective government intervention in the market combined to make food 4 per cent cheaper in 2003. This was helped by the minor impact of transport costs on consumer prices linked to the successful opening-up of new trade routes, and narrower profit margins by haulage operators. The extra cost of shipping 20 000 tonnes of cotton fibre through Lome was estimated by the CMDT as 24.6 CFA francs/kg (3.2 per cent of the average FOB price). Public utility price rises were also held to zero by the government, which reduced electricity rates, while the stronger euro made imports significantly cheaper. Despite a good 2003/04 cereals harvest, this situation is unlikely to continue in 2004 and 2005. The euro is expected to level off, future harvests are not expected to be as good, and utility price controls are not possible in the medium term. Inflation is thus expected to rise to around 2.3 per cent in 2004 and to 2.4 per cent in 2005.

Inflation control in all UEMOA countries, a business slowdown because of the Ivorian crisis, and lower rates in the euro zone led the BCEAO to ease its monetary policies by lowering its discount rate from 6.5 to 5.5 per cent in July 2003 and then to 5 per cent in October that year. The economic boost is expected to be quite small, since the cost of loans depends mostly on the level of debt and not on intervention rates.

## *External Position*

Mali's trade structure is open and very specialised, with gold and cotton accounting for more than 87 per cent of total exports in 2002. Imports are mostly intermediate goods and petroleum products. The country is therefore at the mercy of changing commodity prices (cotton, gold and oil) as well as euro/dollar fluctuations since these items are traded in dollars. Landlocked Mali is also greatly influenced by events in its two powerful neighbours, Côte d'Ivoire and Senegal, with which it has close trade links. The new flare-up in Côte d'Ivoire since September 2002 has badly hit Mali's trade, especially its livestock exports (90 per cent of which go to Côte d'Ivoire), and the country has turned to other ways of getting its exports out through Senegal, Guinea, and Ghana and Togo (both via Burkina Faso).

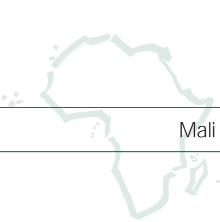
Mali's trade balance is traditionally unfavourable because of meagre exports. However, in 2002, despite transport problems linked to the Ivorian crisis, exports climbed sharply owing to record gold production and a record cotton harvest in 2001/02. Terms of trade also improved with the strengthening of the CFA franc against the dollar, despite low cotton prices, and produced a trade surplus of about 4.2 per cent of GDP. Trade terms



Table 4 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -4.1 | -1.8 | -0.3 | 4.2 | -0.9 | 0.1 | -1.1 |
| Exports of goods (f.o.b.) | 16.3 | 20.6 | 24.1 | 26.8 | 21.6 | 21.3 | 19.8 |
| Imports of goods (f.o.b.) | -20.3 | -22.4 | -24.4 | -22.6 | -22.6 | -21.2 | -20.9 |
| Services | -14.0 | -8.9 | -9.0 | -5.9 | | | |
| Factor income | -1.8 | -3.7 | -5.5 | -7.3 | | | |
| Current transfers | 11.8 | 4.8 | 4.5 | 4.4 | | | |
| **Current account balance** | **-8.1** | **-9.6** | **-10.3** | **-4.5** | | | |

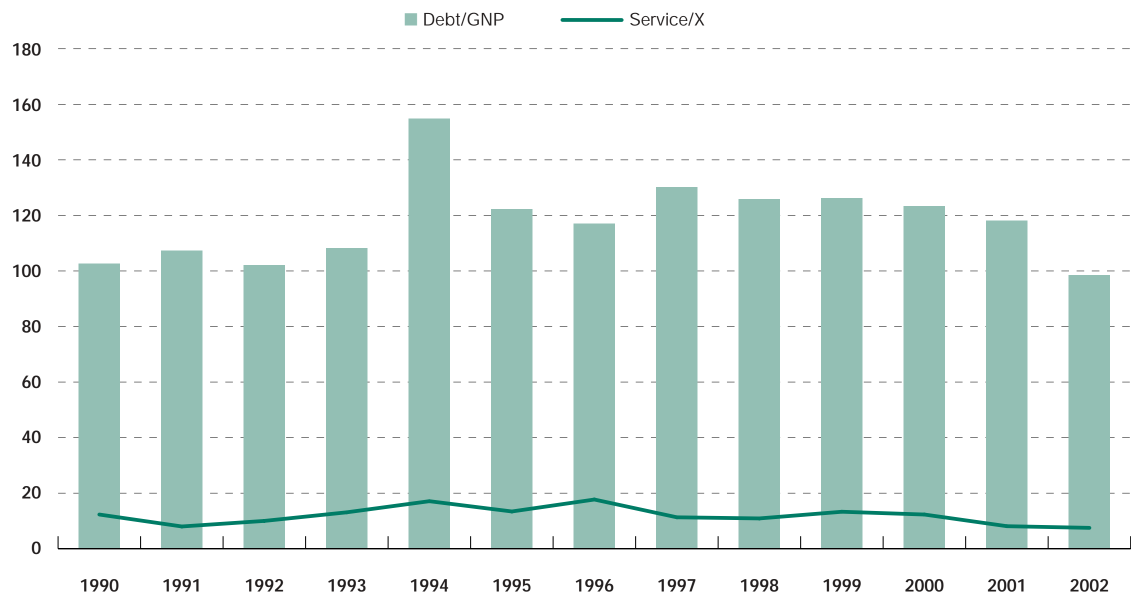
**Source:** BCEAO data; projections based on authors' calculations.



OECD Browse_it Edition • Read Only • Lecture seule

improved again in 2003 with higher commodity prices and further strengthening of the euro. The trade surplus however, deteriorated to -0.9 per cent of GDP, due to the mediocre 2002/03 cotton harvest, much lower gold output and the continuing trouble in Côte d'Ivoire, which was a major obstacle to exporting goods and exerted a negative pressure on the price of items sold to the rest of the sub-region. This should improve somewhat in 2004 following the record 2003/04 cotton harvest. Sluggish cotton prices and an expected drop in that of gold in 2005, unchanged production volumes and little short-term prospect of diversifying exports suggests a larger trade deficit in 2005 of -1.1 per cent of GDP.

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




**Source:** World Bank.

Foreign assistance to Mali runs at about $50 a year per inhabitant, or nearly 80 per cent of total investment and 20 per cent of GNP. About 55 per cent of it is soft loans (on average between 1999 and 2002) and the rest is grants. A large external debt has built up (98.6 per cent of GDP in 2002) due to lack of local funding sources. The private sector share of the debt has been zero since 1996 while multilateral organisations' share has grown more important, accounting for about two-thirds since 1999.

In March 2003, Mali became the seventh HIPC country to reach completion-point, which released $539 million (1998 NPV) in funds, and was able to go before the Paris Club. All bilateral agreements had been signed by December the same year, except for one with France which stumbled over the cancellation of debt incurred by state bodies (the CMDT and the edible oils firm, Huicoma). Arab funding agencies have not yet granted relief either.

Mali's debt is considered sustainable since completion-point has been reached, but the situation remains delicate. The government is contracting new external debt sparingly and since 2002 has only sought soft loans and has stepped up efforts to attract these and grants so as to make the debt viable in the long term. Soft loans were 39 per cent of the total in 2002 (the recommended Bretton Woods minimum is 35 per cent). However the government would like to follow the examples of Senegal and Burkina Faso, which manage to raise nearly two-thirds of their funding in grant form, by approaching new sources, including Scandinavian countries.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • A Read Only



## Structural Issues

The government has embarked on thorough reform of the troubled major cotton and infrastructure sectors in view of the tremendous effort needed to fight poverty.

National energy consumption is very small and involves mostly biomass. Only about 10 per cent is modern (oil, and then electricity). The state electricity company EDM reported production of 590 GWh in 2002 for 118 806 customers, while local firms had a capacity of 306 kWh for 1 422 customers. Nationwide electricity coverage increased from 8.5 per cent in 2000 to 9.3 per cent in 2001 and 12 per cent in 2002. The small output is due not only to lack of infrastructure but also the weakness of the existing network. A big step forward was made in January 2002 with the opening of the Manantali Dam (shared with Senegal and Mauritania), which will reach saturation in 2005. Power is to be relayed through dams to be built at Tossaye, Kenie, Felou and Gouina and the system will be connected to the Ivorian grid, though the hoped-for link-up by 2005/06 has been put off due to political troubles. Construction of the dams has aroused strong opposition from NGOs and requires regional-level discussions, so prospects are fairly distant.

To boost energy supply, the government set up a national energy office in 1999 and an electricity and water regulatory body in 2000. The state also withdrew from electricity generation, and production was taken up by EDM (owned 60 per cent by SAUR-IPS since December 2000 under a 20-year agreement), Manantali (operated since 2001 by Eskom) and home producers. Several large firms produce their own power (264 GWh in 2002), including sugar factories, mining plants, the CMDT and Huicoma.

Despite a 58 per cent rise in customers between 2000 and 2003, and creation of 400 jobs, a dispute recently broke out between the government and SAUR-IPS. The firm was accused of not keeping up EDM's 20-year, 240 billion CFA franc ($337 million) investment programme and making price increases that did not match the terms of its contract nor the fact that opening the Manantali Dam provided cheaper current. The contract appears to leave wide room for interpretation and contains clauses (such as the lack of a ceiling on price increases) unsuitable for a poor country highly dependent on oil imports. Also, the choice of a global concession (production and distribution) could be criticised in a country with a very poor distribution infrastructure that requires massive investment of the sort a private investor would not be inclined to make. Another problem was lack of a prior regulatory framework, as the body monitoring the contract was only set up after the fact.

After the first five-year privatisation programme (1994-1999), the government began a second in 1999, mostly of key firms such as the CMDT, the Niger River Authority, the railway company, the airports authority (ADM), the telecommunications company (Sotelma) and EDM. A pre-privatisation opening-up of the telecommunications sector began in October 2001 and a regulatory board was set up to ensure competition was maintained. A second operating licence for both fixed lines and a cellular network was awarded in August 2002 to Ikatel (70 per cent France Télécom and 30 per cent private Malian capital), which began operating in February 2003 by providing 100 000 GSM lines.

A franchise arrangement was chosen for the airports, for management, operation and maintenance, and expanding and renovating facilities. No responses were received to a June 2003 call for bids and a new one was being put together in September that year. The Dakar-Bamako railway was handed over to the Canadian consortium Getma-Canac in October 2003 with a 25-year license, while Air Mali was wound up in April 2003.

Problems in the cotton industry have been aggravated recently by poor world prices. Cotton fibre fell to 93 US cents/kg in 2002, the lowest for 30 years, while subsidies to US, European and Chinese producers totalled $5.8 billion. The government began a drastic reform of the sector, involving a revamp of the CMDT, but this was tricky because of its central role in the economy. The industry's policy statement, drawn up after the national cotton conference in April 2001, was replaced in November 2003 by an updated action plan necessary due to the delay in the reform. The new plan



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

confirmed the goal of breaking up the CMDT by 2006 into three or four private regional firms with a temporary monopoly of purchasing cottonseed in which farmers' organisations would have a share. The government is currently in negotiations with the International Finance Corporation (IFC) to determine the details of privatisation.

Some of the steps spelled out in the earlier policy statement have already been taken, including an audit of the CMDT, which should produce a business plan for 2004-06. The CMDT has also begun laying off a quarter of its workers (597) at a cost of 7.77 billion CFA francs ($13 million). The system of calculating the price to growers has been revised to peg the discount price to the highest price of cotton, rather than to the sale price and prices elsewhere in the sub-region. This has resulted in growers receiving 200 CFA francs ($0.34) per kg for the 2003/04 harvest, 20 CFA francs more than the previous year. Somadiaa was named the temporary adjudicator of Huicoma in October 2003 and is discussing details of the privatisation (price, investments and job-preservation) with the government.

Reform implementation is being hampered by a lack of technical resources and funding. A key aim is to refocus the CMDT on its basic cotton business, though this will require new operators to undertake the services it currently carries out. It would be difficult for ministries involved in developing rural roads, schools and clinics to integrate these services into their tight budgets, particularly in the context of incipient decentralisation (when information about local needs does not easily reach the central government).

The private sector still lacks resources to take over for the CMDT in some areas, such as supplying inputs and crop transport. The government consequently has postponed transfer of the inputs business and slowed down a changeover to private transporters. The pilot privatisation of the Upper Niger Valley Authority (OHVN) ginning factories was not very successful, as the only private company interested, the US firm Dunavant, pulled out in May 2003 citing a lack of openness in liberalising the sector and the troubles in Côte d'Ivoire. The factories were returned to the stock of equipment to be privatised along with the CMDT.

Mali is firmly landlocked and has poor infrastructure, aggravated by the size of the country and its sparse and very unevenly distributed population. Building road links to other regional capitals – Dakar, Conakry and also Nouakchott – has been speeded up by the Ivorian crisis. Infrastructure development has also become a priority in poverty reduction efforts and the government has privatised road maintenance and set up a national roads office. The Getma-Canac consortium has pledged to invest 60 billion CFA francs ($85 million) by 2008 to upgrade the Dakar-Bamako railway line and quadruple its freight tonnage. Four months after starting operations, one of the firms, TransRail, had already doubled freight tonnage.

Telecommunications is still in the early stages despite recent efforts to expand, notably at the time of the Africa Nations Cup in 2002, and coverage was still only 0.54 lines per 100 people in 2001 (1.2 in towns and 0.02 in the countryside), even though the number of phones rose by 156 per cent between 1999 and 2001.

The banking system is very small and vulnerable to the extreme concentration of risk centred on cotton production. About 20 per cent of loans are non-performing and the legal framework is unreliable. The Ivorian troubles in 2002 greatly swelled the banks' net external assets partly because of delayed imports by some firms and partly due to return of Malian capital from Côte d'Ivoire. As a result, prudential ratios have been improving steadily since 2001.

## Political and Social Context

Democracy is new in Mali and the first multiparty elections were held in April 1992. The first peaceful handover of power was after the 2002 presidential vote, which was internationally praised as peaceful despite voter apathy and obvious disorganisation. The election was won by the independent candidate General Amadou Toumani Toure, who had overthrown President Moussa



© AfDB/OECD 2004

Browse_it Edition • Read Only • A Lecture seule • OECD



Traore in 1991 and whose declared aim was to rule by consensus. Two years after taking office, a broad consensus was still largely in place thanks to his popularity and energetic anti-poverty measures.

However, splits in the Alliance for Democracy in Mali (ADEMA), the party of former President Alpha Oumar Konare, have transformed the political scene. Former Prime Minister Ibrahim Boubacar Keita and 37 other ADEMA MPs left the party in 2001 after a row about corruption to found the Union for Mali (RPM) party. After ADEMA lost the presidential election, its candidate, Soumaila Cissé, also set up his own party, the Union for the Republic and Democracy (URD), criticising outgoing President Konare for a lack of support and the attempts to bring back into ADEMA two members (Mande Sidibe and El Mandani Diallo) who had been expelled for standing as independents in the election. Since then, some RPM figures have moved closer to ADEMA again in protest at ties between the RPM and the URD. Local elections in April 2004 should clarify the situation by showing the strength of the different groups. These will be the last scheduled elections until 2007.

Mali has shown great openness to the outside world in recent years. It hosted the African Nations Cup, former President Konare was elected head of the African Union's Commission in 2003 and ex-presidential candidate Cissé was elected head of UEMOA in February 2004). Mali also took an international stand in September 2003 when, with Benin, Burkina Faso and Chad, it proposed a "cotton initiative" at the Cancún ministerial trade conference that would abolish subsidies for growers in developed countries and set up a temporary system for these countries to compensate poor-country producers.

Relations with France were normalised, despite tension over illegal immigrants, resulting in a visit by French President Jacques Chirac in October 2003; Mali was also chosen to host the next Franco-African Summit in 2005. The renewed troubles in Côte d'Ivoire in September 2002 seriously affected diplomatic relations with that country however, and aroused fears that political and social unrest would spread in the sub-region.

Fighting poverty is the main priority of the government's 2003-07 national political programme presented to parliament in December 2002. The target is to reduce poverty from 64 to 47 per cent by 2007, based on a 1999 poverty line of 97 843 CFA francs ($159) average income per person. A poverty reduction strategy paper (PRSP) set priorities for development partners including: strengthening institutions (reforming public services and the legal system and fighting corruption), human development through better access to basic social services, and expanding infrastructure to boost cotton, rice, livestock and gold production.

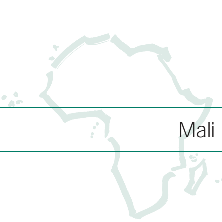
The projected cost of the PRSP programme between 2002 and 2005 is estimated at 2 707.6 billion CFA francs ($4.6 billion). External contributions to this are expected to be 1 043.6 billion CFA francs ($1.8 billion). Mali's relative inability to absorb this aid means that money alone will not see the projects achieved nor poverty reduced. For this reason, the HIPC Initiative seems a clear step forward as the funds it released were better absorbed than grant money usually is. HIPC funds are handled in a normal budgetary way[2] and do not have the strings and complicated procedures imposed by individual funding sources. They are also more reliable over the long term than grants. The first HIPC years were trial-and-error and mostly involved extending projects, but since 2002 these funds have been spent on new projects.

The government's November 2003 report on the first year of the PRSP stressed the work to be done to reduce poverty in light of the failure to meet the it's own initial annual economic growth target of 6.7 per cent.



2. Unlike most HIPC countries, Mali does not have a selection committee in which civil society can help draw up projects. HIPC projects are chosen and implemented under standard budgetary procedures. They thereby benefit from the decentralisation process begun in 1992 but they are still not off the ground because local authorities have few of the resources and skills needed. There is also lack of co-ordination between local programmes and national sectoral programmes.

© AfDB/OECD 2004





An OECD Browse_it Edition • Read Only • Lecture seule

Health conditions in Mali are very poor and are a major issue in the fight against poverty, with a dearth of staff and training. Despite the PRSP's focus on healthcare spending, the assessment report pointed to the sector's low absorption capacity (as shown by the meagre use of funds in the social and health development programme PRODESS). The total rate of funding take-up was 51 per cent in 2001 and 54 per cent in 2002, which meant the target of spending 9.7 per cent of the national budget on healthcare was not met in 2002, when the figure was only 5.3 per cent. There is little improvement in vaccination coverage, maternal mortality and child malnutrition, or narrowing of large regional differences in pre-natal care. However, infant mortality improved from 123 per 1 000 in a 1995-96 demography and health survey to 113 per 1 000 in 2003.

The PRSP report notes significant recent progress in education, with a 64 per cent gross enrolment target being slightly exceeded in 2002, and education receiving 13.9 per cent of the total budget, instead of the planned 12.7 per cent. Under the accelerated 10-year education plan PRODEC, 2 467 classrooms were built in 2001/02 (instead of the 1 500 planned) and about 12 000 teachers were hired between 2001 and 2003. However, the education system remains of poor quality and not enough people are interested in training as teachers. Despite the unexpectedly good progress, regional and gender inequalities remain very large.





© AfDB/OECD 2004

# Mauritius

Port-Louis

**key figures**

- Land area, thousands of km² 2
- Population, thousands (2002) 1 210
- GDP per capita, $ (2001/2002) 3 914
- Life expectancy (2000-2005) 72.0
- Illiteracy rate (2002) 14.8

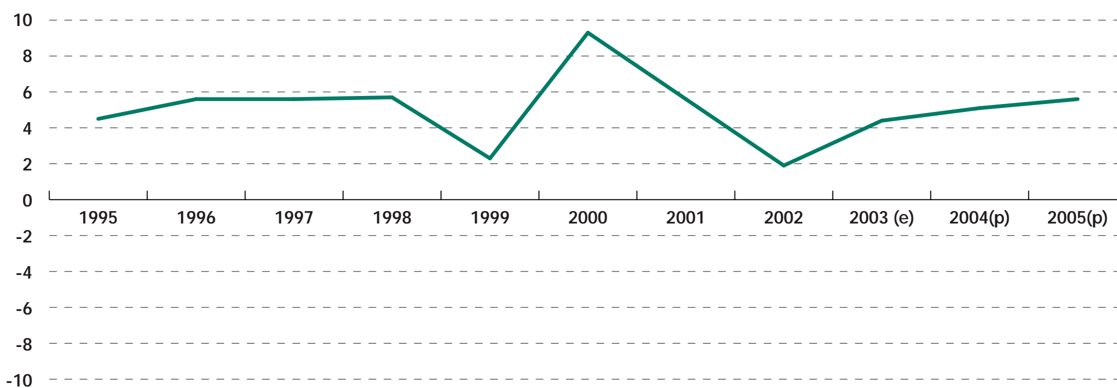
An OECD Browse_it Edition • Read Only • Lecture seule

MAURITIUS HAS ENJOYED HEALTHY annual growth of more than 5 per cent over the past two decades since diversifying its one-crop sugar economy. But after a serious drought in 1999, the island was then devastated by Cyclone Dina in early 2002. The bad weather and poor sugar prices slowed growth to 1.9 per cent that year but it recovered to 4.3 per cent in 2003 thanks to good results in sugar and tourism and spin-offs from major government telecommunications and computer projects. This should be sustained in 2004 (4.8 per cent) and 2005 (5.2 per cent).

Despite these good performances, the economy is at a tricky juncture because the conditions that fuelled its rapid growth are changing considerably. Sugar and clothing, the keys to its expansion, have increasing problems due to higher labour costs and the end of preferential market access by 2007. The island's future depends on making urgent structural reforms to restore the confidence of economic stakeholders while maintaining social stability, which has been undermined by rising unemployment.

Mauritius is going through a difficult transition owing to a change in its comparative advantages.

Figure 1 - **Real GDP Growth**




**Source:** Central Statistics Office data; projections based on authors' calculations.



## Recent Economic Developments

Growth is tied to its export-processing zone (EPZ), sugar, tourism and financial services.

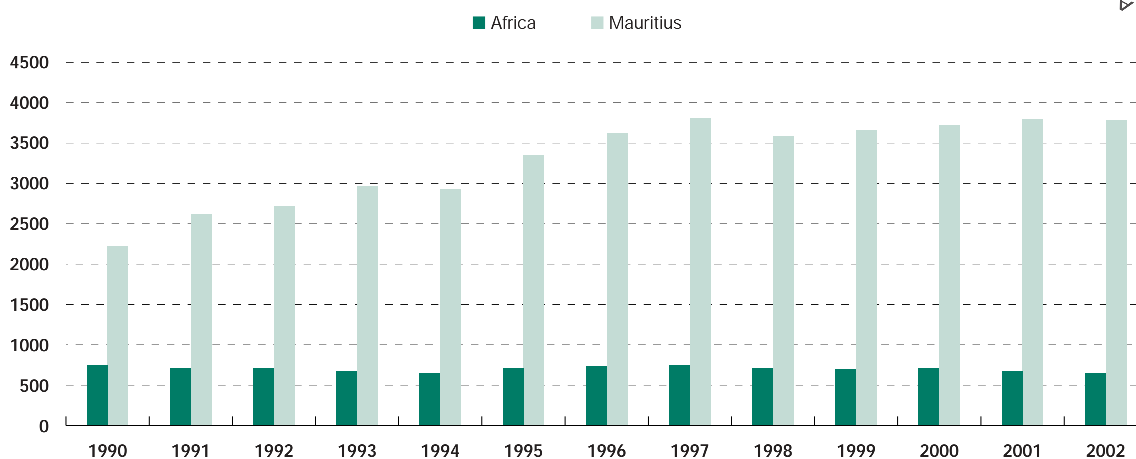
On top of the bad weather in 2002, the economy was hit by a significant slowdown in European and US demand. This affected growth in the primary sector, especially sugar. The secondary sector slowed a little due to export problems and the service was badly hit by a slump in hotel and restaurant business.

The primary sector was 6 per cent of GDP in 2002 and employed 10 per cent of the male workforce and 4 per cent of the female workforce. Cyclone Dina extensively damaged cash and food crops. Growth in the sugar sector, the centrepiece of agriculture, crashed from 9.9 per cent in 2001 to minus 19.3 in 2002 and cane production fell from 5 792 000 tonnes to 4 874 000. The non-sugar sector shrank by 7.1 per cent in 2002 (after expanding 4.3 per cent in 2001), mainly due to smaller production of crops, especially pineapples. But overall primary sector prospects are bright, with 2.5 per

© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

cent growth in 2003 (3.1 per cent in sugar and 1.8 in non-sugar items).

The secondary sector's share of GDP topped 29 per cent in 2002 and occupied 26 per cent of the male workforce and 57 per cent of the female workforce. But performances varied widely, with a sharp drop in sugar industry and EPZ activity (especially textiles/clothing). But other manufacturing, mostly of local consumer goods (soap, soft drinks, flour, candles and shoes), grew 4.2 per cent. The sector grew slightly (0.3 per cent) in 2003, thanks to 3.1 per cent growth in the sugar industry and 4.4 per cent in local manufacturing, but the EPZ declined for a second straight year, by 4 per cent.

In 2002, the sugar industry slumped because of a 19.3 per cent fall in sugar output, to 520 887 tonnes (from 645 598 tonnes in 2001), reflecting lower cane production. The long-term target is 620 000 tonnes of sugar, to offset the gradual abolition of preferential trade agreements, which are vital to the economy but will end by 2007, forcing the sugar and textile/clothing industries to become more competitive. Both are making reforms and restructuring their workforce.

The EPZ declined in 2002 for the first time in more than a decade. Exports were 32 683 million rupees ($1.09 billion), down from 33 695 million ($1.16 billion) in 2001. They fell further in 2003, to 32 059 million rupees (but rose to 1.14 billion in dollar terms because of the weaker dollar), along with a loss of 9 580 of the sector's total 87 200 jobs at the end of 2002. The job losses were mostly in clothing (9 520), where exports fell by 2.6 per cent (in rupees). Clothing (nearly 80 per cent of EPZ activity) has grown steadily in the past few years in response to European and US demand. But the fall in its competitivity, plus smaller US demand and the December 2001 crisis in Madagascar, where some Mauritian firms had set up to reduce their costs, saw several big textile/clothing firms shut down.



Greater international competition and other economic changes will reduce the sector's short-term prospects. Quotas and duty-free access to the European market will end in December 2004. This and higher labour costs will force textile firms to make drastic changes.

The tertiary sector (mostly financial services and tourism) continues to dominate the economy, accounting for 65 per cent of GDP in 2002, along with 64 per cent of the male workforce and 39 per cent of the female workforce. It did well in 2002.

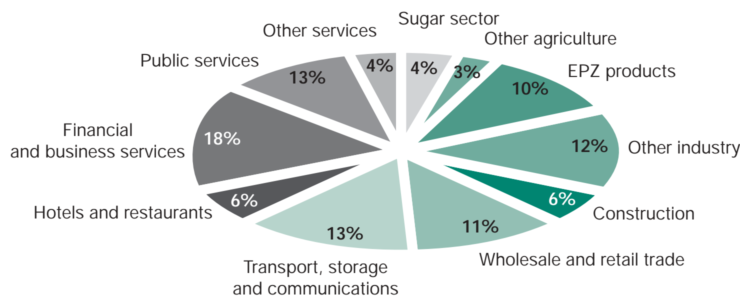
Financial and commercial services were 18 per cent of GDP in 2002. Financial services have grown substantially since the early 1990s – an average 7.6 per cent annually between 1991 and 1998 and more than 10 per cent annually between 1999 and 2001. After a tough year in 2002, (due to the slump in the sugar industry), they grew more than 7 per cent in 2003.



© AfDB/OECD 2004

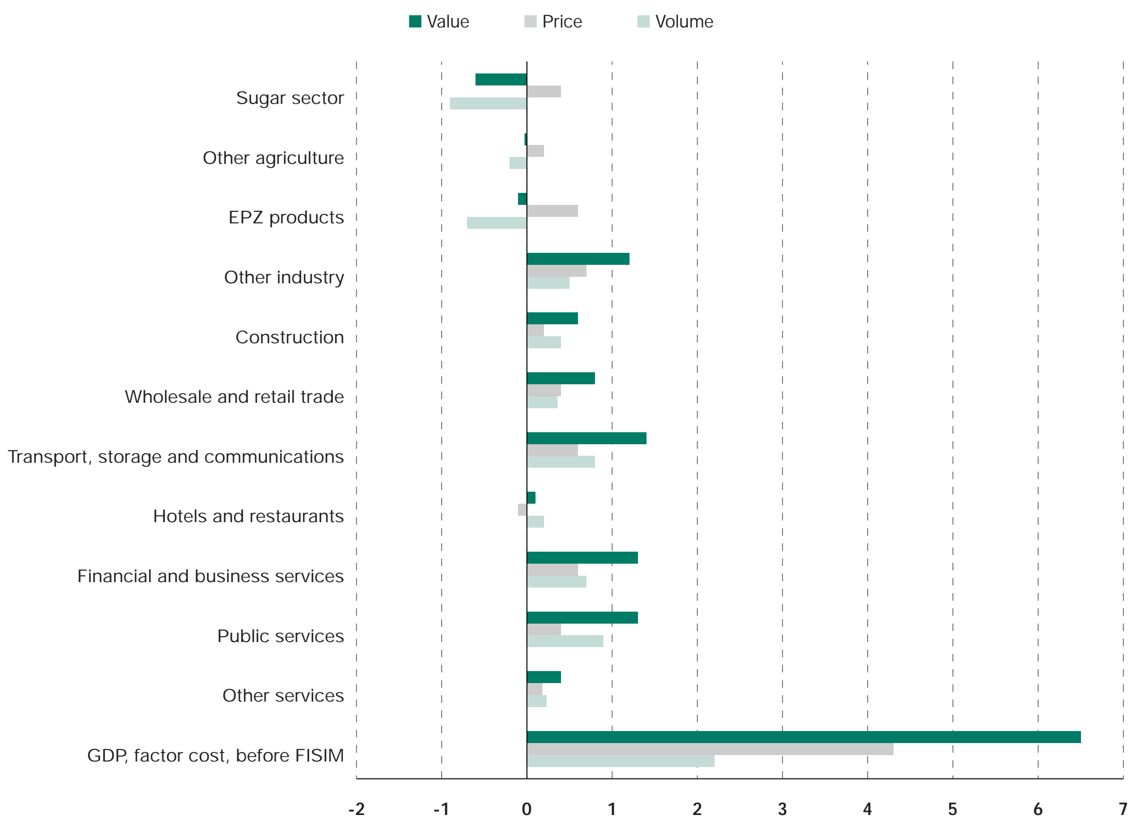
OECD Browse_it Edition • Read Only • A Lecture Seule

## Figure 3 - GDP by Sector in 2002




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

## Figure 4 - Sectoral Contribution to GDP Growth in 2002




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

Encouraged by the government, international offshore financial activity has been the strongest element of the financial sector in recent years. Its assets more than quadrupled between 1997 and 2002 and were equivalent to 94 per cent of GDP (22 per cent in 1997). However, because of restrictions on the participation of Mauritian nationals, the offshore sector's spillover to the economy is very small (less than 2 per cent of GDP) and mainly indirect, such as better telecommunications and local training in high-level financial skills.

Tourism is still a mainstay of national development, bringing in substantial revenue and directly employing

OECD Browse_it Edition • Read Only • Lecture seule

more than 22 260 people (March 2003) in tourist agencies and in hotels with more than 10 employees. Tourist arrivals increased by about 10 per cent a year between 1971 and 2002 and revenue from tourism by 22 per cent annually. This growth slowed markedly to 0.6 per cent in 2001 (3.2 per cent in 2002) because of recession in Europe and the United States and internal factors such as the limited capacity of Air Mauritius. But in the uncertain international climate in the wake of the 11 September attacks, the country has a reputation for stability and is not involved in current geostrategic issues. Tourist arrivals increased 3 per cent in 2003, though they were not expected to speed up in the short term.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **25.6** | **25.6** | **20.7** | **22.0** | **23.5** | **24.0** | **24.6** |
| Public | 8.1 | 6.5 | 7.1 | 6.9 | 8.7 | 8.6 | 8.6 |
| Private | 17.5 | 19.2 | 13.7 | 15.1 | 14.8 | 15.4 | 16.1 |
| **Consumption** | **76.8** | **74.9** | **73.4** | **74.9** | **72.7** | **71.4** | **70.3** |
| Public | 13.1 | 13.0 | 12.7 | 12.9 | 13.0 | 12.5 | 12.1 |
| Private | 63.7 | 61.9 | 60.7 | 62.0 | 59.7 | 59.0 | 58.2 |
| **External sector** | **-2.4** | **-0.6** | **5.9** | **3.1** | **3.8** | **4.6** | **5.1** |
| Exports | 58.6 | 61.8 | 68.5 | 62.2 | 57.8 | 54.1 | 52.1 |
| Imports | -61.1 | -62.4 | -62.6 | -59.2 | -54.0 | -49.5 | -47.0 |

**Source:** Central Statistics Office data; projections based on authors' calculations.



Growth has been mostly driven by internal demand since 2002, with government investment the main factor in 2003. Private investment should take over in 2004 with the opening of Cyber City. Exports in 2003 were mainly hit by poor sugar results. Imports also fell substantially by value because of the rupee's rise against the dollar.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Efforts to reduce the budget deficit in recent years have clashed with the goal of boosting capital expenditure to keep the economy competitive. The deficit rose sharply in the past three budgets, mainly because of losses at big public enterprises (such as the State Trading Corporation and the Central Electricity Board) and very ambitious government investments. It was over 6 per cent of GDP in 2000/01, 2001/02 and 2002/03 and despite the government's intention to reduce it to under 3 per cent by 2005/06, it is unlikely to improve much in the short term. The 2003/04 deficit should be about the same, at 6.3 per cent, and then fall to around 5.4 per cent as capital spending levels off.

Tax revenue increased to 17.4 per cent of GDP in 2002/03 (from 15.7 per cent in 2001/02) because VAT was raised from 10 to 12 per cent in 2001/02 and to 15 per cent in 2002/03. VAT and income tax were also more widely collected as exemptions and the size of the informal sector were reduced. But despite these reforms, the country faces a steady decline in customs revenue due to regional agreements and growth of the EPZ. The actual trade tax rate fell from 16 per cent in 1995 to 10 per cent in 2002. Tariff agreements with COMESA (Common Market of Eastern and Southern Africa) in 2005 and with SADC (Southern African Development Community) in 2008 suggest it will fall further.

Overall revenue increased in 2002/03 but expenditure rose even more. Current spending was 21.1 per cent of GDP in 2002/03 (20.2 per cent in 2001/02) and capital spending rose by 39 per cent. Public capital expenditure increased sharply between 2000/01 and 2003/04 to 5.3 per cent of GDP. The government


© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule • AfDB/OECD



| Table 2 - **Public Finances**[a] (percentage of GDP) | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[b] | **17.4** | **20.8** | **18.3** | **18.3** | **20.3** | **20.2** | **20.3** |
| Tax revenue | 15.6 | 18.2 | 16.2 | 15.7 | 17.4 | 17.3 | 17.4 |
| **Total expenditure and net lendings**[b] | **24.3** | **24.1** | **24.4** | **24.3** | **26.5** | **26.6** | **25.7** |
| Current expenditure | 20.0 | 20.7 | 21.2 | 20.2 | 21.1 | 20.9 | 20.1 |
| *Excluding interest* | *16.9* | *17.3* | *17.1* | *16.9* | *16.9* | *16.8* | *16.3* |
| Wages and salaries | 7.2 | 6.7 | 6.6 | 6.4 | 6.3 | 6.3 | 6.1 |
| Interest | 3.2 | 3.5 | 4.1 | 3.3 | 4.3 | 4.1 | 3.8 |
| Capital expenditure | 3.6 | 3.2 | 3.1 | 3.7 | 4.7 | 5.3 | 5.3 |
| **Primary balance** | **-3.7** | **0.1** | **-2.1** | **-2.7** | **-1.9** | **-2.2** | **-1.5** |
| **Overall balance** | **-6.9** | **-3.3** | **-6.1** | **-6.0** | **-6.2** | **-6.3** | **-5.4** |

a. Fiscal year begins 1 July.
b. Only major items are reported.
**Source:** Ministry of Finance data; projections based on authors' calculations.

launched a huge programme in 2001/02 to modernise the country's productive structures and develop new comparative advantages as traditional industries became less competitive. But delays in procedure and implementation hampered its execution and in 2002/03 skilled personnel and infrastructure were still to be provided in education, information and communication technology (ICT) and the environment. Public investment is a government priority in the next few years but should remain steady at about 5.3 per cent in 2004/05 as Cyber City is completed in 2004.

The Bank of Mauritius (the central bank) controls monetary and exchange policy as a way to boost growth and price and exchange stability. But inflation rose to 6.3 per cent in 2002 because of the increase in VAT, higher electricity prices, depreciation of the rupee and the effect of Cyclone Dina on food prices. The rupee continued to fall against the euro in 2003, producing a small amount of imported inflation. But better harvests and government price controls reduced inflation to below 4 per cent in 2003. This should continue in 2004 (4 per cent) and 2005 (3.2 per cent).

The rupee has been losing ground against the euro for several years. A similar trend against the dollar was reversed in 2003 and it rose in value. These trends have recently allowed Mauritius to import goods fairly cheaply (mainly in dollars since most are from Asia) while exports (mostly in euros) have benefited from the strong euro.

## *External Position*

Mauritius is one of the most open countries in Africa with an opening ratio (exports and imports as a percentage of GDP) of more than 80 per cent in 2002. It is also one of the most diversified countries, with a diversification index of a dozen products in 2001. But most of its trade is in a small number of items for which the government has made preferential agreements. The clothing sector accounted for more than 63 per of total trade in 2002 and sugar 21 per cent.

The main trading partners are Europe (64 per cent of exports in 2002) and the United States (19 per cent) but efforts are being made to broaden outlets, including in Africa (10 per cent). Mauritius signed an agreement in 2000 with the SADC bloc to liberalise 85 per cent of trade with it by 2008. It also belongs to the nine-member COMESA free trade area, which is planning to set up a common external tariff and customs union by 2005.

The trade balance is structurally in deficit but good performances in tourism mean it is easily offset by a services and current transfers surplus. The current account has shown a surplus since 2000. This should continue in 2004 and 2005 with a trade deficit of around 4 per cent of GDP. There are no limits on foreign capital inflow. Direct investment has enabled the economy to grow rapidly but the influx is much smaller than the erratic flow of financial capital.



© AfDB/OECD 2004

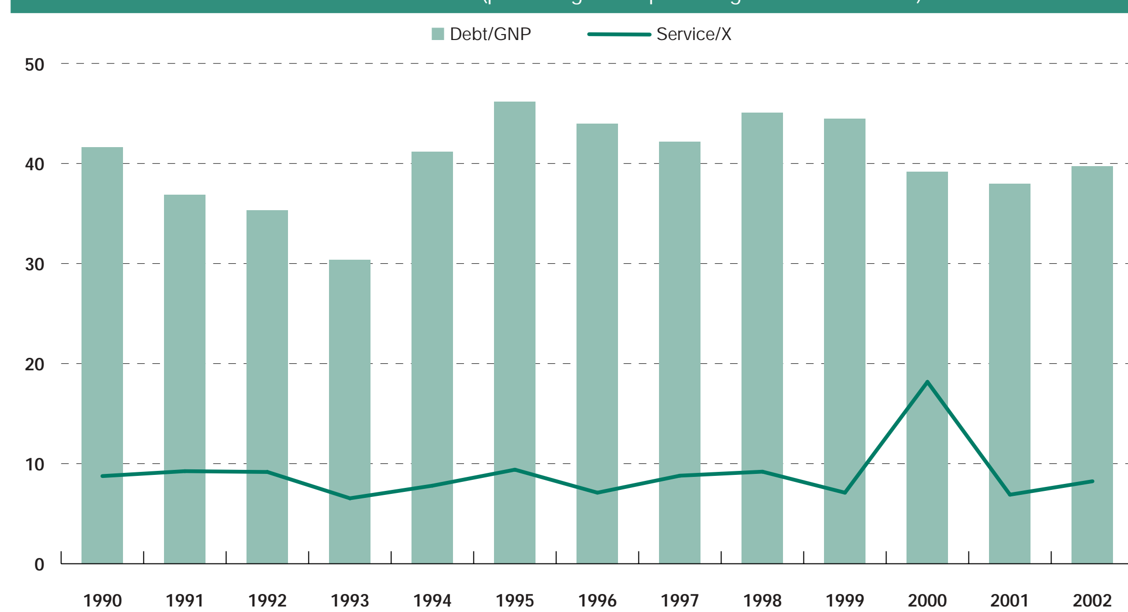
OECD Browse_it Edition • Read Only • Lecture seule

Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -5.8 | -7.3 | -3.2 | -4.5 | -4.2 | -3.8 | -4.3 |
| Exports of goods (f.o.b.) | 39.4 | 38.3 | 41.5 | 38.0 | 34.6 | 31.7 | 29.4 |
| Imports of goods (f.o.b.) | -45.2 | -45.6 | -44.7 | -42.4 | -38.8 | -35.5 | -33.7 |
| Services | 3.4 | 6.8 | 9.1 | 7.4 | | | |
| Factor income | -0.5 | -0.4 | 0.3 | 0.2 | | | |
| Current transfers | 2.5 | 1.4 | 1.5 | 0.3 | | | |
| **Current account balance** | **-0.5** | **0.5** | **7.7** | **3.4** | | | |

**Source:** Central Bank and Central Statistics Office data; projections based on authors' calculations.

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




**Source:** World Bank.

Since the early 1990s, foreign debt has ranged from 30 per cent of GNP (1993) to 45 per cent (1998). In 2002, it was 39.7 per cent, 1.7 percentage points down on 2001. Debt service is quite modest and stable.

## Structural Issues

Mauritius has much better infrastructure and regulatory apparatus than other African countries, but faces major structural problems linked to erosion of its traditional comparative advantages. The country has exceptional political and social cohesion with which to meet the challenge of thorough economic structural reform and developing new sectors, such as new information technology.

The government is trying to ensure a secure supply of energy and draft a national policy but Mauritius has no oil and does not produce or consume natural gas and coal. Oil consumption was 16 100 imported barrels a day in 2001.

The government plans to make the most of hydro power for electricity and several new dams are to be built, including one at Chamarel with a capacity of



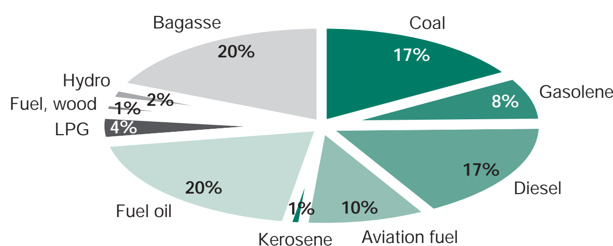


© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



Figure 6 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

5-10 million cubic metres. It also wants to encourage independent power producers and greater use of bagasse (sugar cane waste) as fuel. Total current produced in 2002 was 1 715 gWh (up 3.5 per cent from 2001), from an installed capacity of 498 MW, 51.5 per cent of it from thermal plants run by the state-owned Central Electricity Board (CEB) and only 5 per cent from hydroelectric plants. So 43.5 per cent of all current is supplied by independent producers, who use bagasse or a combination of bagasse and coal as fuel.

Despite damage by Cyclone Dina, renewable energy (hydro and bagasse) accounted for 22.5 per cent of total electricity production in 2002. The Compagnie thermique de Belle Vue has built a 70 MW bagasse-fuelled plant north of the capital, Port-Louis. A solar energy project was also launched in February 2000.

Reform of the energy sector began in 2001 and was stepped up in 2002. It improved electricity distribution, which will provide better and cheaper current for CEB customers. The government rejected a CEB request in 2003 for a further substantial rate increase, after those of 11 per cent in 2000 and 21 per cent in 2002. The Board continued its financial reorganisation and is due to become a firm just handling nationwide transport and distribution of electricity. It has reduced its bank debts from 1.5 billion rupees ($57 million) in October 2000 to 250 million ($9 million) in 2003 thanks to the two rate increases, substantial collection of arrears from local authorities and cheaper loans than it could have got from the banks.

The comparative advantages of Mauritius in sugar and textiles are based on preferential trade agreements with the European Union (EU). The EU Sugar Protocol has for nearly 30 years guaranteed fixed export volumes above world prices. However it has been under heavy attack as part of the reform of the EU's common agricultural policy. Sugar prices have also been falling for the past decade due to over-production. Australia and Brazil formally protested to the World Trade Organisation (WTO) in September 2002 against the EU sugar export subsidies. Abolition of the Protocol would have a serious effect on the Mauritian economy especially as due to the 2001 "Everything But Arms" trade agreement with the EU, competition with other developing countries is likely to intensify.

Under the WTO's Multifibre Agreement (MFA), Mauritius has enjoyed privileged treatment for textile/clothing exports since 1973. However, the MFA is being phased out and the sector will be completely opened up by the end of 2004, leaving it to compete with Asian countries, especially China. The effect could however be offset by better access to the US market under AGOA (the African Growth and Opportunity Act).

The government has made great efforts to prepare for the end of these preferential arrangements by reforming crisis sectors and promoting diversification. Reforms in the sugar industry aim to reduce production costs, which the government says were reduced from $0.20 a pound in 2000 to $0.14 in 2003, with a goal of $0.12 in 2008. The textile/clothing sector becomes more automated and vertically integrated. The changes, to make the sectors more competitive, have led to factory closures and layoffs, which are especially troubling as the new economic opportunities in the ICT sector involve far fewer jobs.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

Mauritius, which has one of the densest telecommunications networks in Africa (235 lines for every 1 000 inhabitants), is becoming a centre of ICT, first developing comparative advantage in low-skill communication services (call centres and data processing) and then moving into more specialised, higher-value activities. The country has profited greatly from a transfer of skills and knowledge from India, which has successfully made a transition to a computer services economy. It also has the benefit of a bilingual (English and French) population, strong political commitment and well-developed infrastructures (including a "Cyber City" hosting high tech which began operating in early 2004). However, the high cost of phone calls, internet access, electricity and labour remain an issue.

Diversification has also focused on developing a financial services (especially offshore) sector to compete internationally. The country has a large, modern and efficient onshore financial system involving two major local banks (the Mauritius Commercial Bank and the State Bank of Mauritius), which control 70 per cent of the system's assets and make nearly 80 per cent of loans. Two foreign banks (HSBC and Barclays) have 20 per cent of total bank assets. Mauritians are keen bank customers (1.3 accounts per person) and small- and medium-sized firms can get loans fairly easily. The banking system is vigorous, profitable, solvent and secure (the equity ratio is about 13 per cent and non-performing loans are less than 8 per cent). These results are due to high interest rate margins, good cost control and very favourable macroeconomic conditions during the 1990s. The IMF said in mid-2003 that banking regulation was satisfactory but stressed the need for improvement in some areas, including effective supervision. The solidity of the Mauritian financial sector has never been tested however and its ability to adapt to a sustained macroeconomic downturn is unclear. The narrow ownership of banks does not make for innovation and credit risk is focused in a few sectors (sugar, textiles/clothing and tourism) that are in decline and fairly indebted. Bank loans remain the chief means of funding the economy and the non-banking financial sector (stock and bond dealings), although modern, is small.



The offshore financial sector is still quite modest on a world scale but is being encouraged by the government. However, it has few growth and employment spin-offs for the economy. Its business mostly involves South Africa and India and is based on advantageous tax agreements with both. The possibility of changes in them is a threat; but legal challenges to the one with India have so far failed (an October 2003 Indian supreme court ruling). Easing of exchange control rules in South Africa would also reduce the attraction of the Mauritian offshore sector.

## Political and Social Context

Mauritius is a republic and a very stable democracy. It has a national assembly (parliament) of 70 members, 62 elected by universal suffrage every five years (60 for Mauritius, 2 for Rodrigues Island) and 8 appointed by the election commission from the "best losers."

Paul Berenger, leader of the Mauritian Militant Movement (MMM), became the first non-Hindu prime minister in September 2003, succeeding Anerood Jugnauth, who resigned to become president of the republic. Under a power-sharing agreement between the MMM and the Militant Socialist Movement (MSM) at the last elections in 2000, the national constitution has been amended to increase the president's powers and Paul Berenger will be prime minister until the 2005 elections. The poor showing of the ruling MMM-MSM coalition at by-elections in December 2003 produced a minor cabinet reshuffle.

Unemployment has been steadily rising for several years and is the country's most serious social problem, with 10.2 per cent of the workforce jobless in 2003 (9 per cent men and 12.6 per cent women), up from 9.7 per cent (8.5 per cent men and 12 per cent women) in 2002. This was 54 400 people in 2003 (31 700 men and 22 700 women), compared with 50 800 (29 600 men and 21 200 women) in 2002. They are mostly young people without secondary education or technical or professional skills. The situation is troubling because labour costs are high and rising, which has slowed job creation. Foreign workers are a cheaper



© AfDB/OECD 2004

OECD Browse_it Edition • A Read Only • Lecture seule


potential labour pool for local firms. The switch to services (finance and tourism) in an economy long dominated by sugar and textiles/clothing has not been matched by a sufficiently better trained workforce and there is a shortage of skilled labour.

Results in the healthcare sector are very good. Infant mortality dropped 11 per cent between 2002 and 2003, from 14.9 to 13.2 per 1 000 live births, and life expectancy rose to 72.5 years in 2002 (from 72.1 in 2001). Mauritius has a well-developed health system and a good geographical spread of hospitals and clinics. The government spends a lot on health and is expected to budget for more in the next few years to improve and expand the system. The adult HIV/AIDS rate was only 0.1 per cent in 2001 – 700 adults (aged between 15 and 49), half of them women, plus fewer than 100 children. Fewer than 100 people have died of the disease. This is one of the lowest developing-country rates, partly due to geographical isolation but also because of a very good education and healthcare system.

The government has made education a clear priority and spent 13 per cent more on it in the 2003/04 budget (when 5 119 million rupees – $180 million – was earmarked) than in 2002/03. Secondary education received 41.9 per cent of the money, primary education 30.3 per cent, higher education 13.9 per cent and technical and vocational training 1.7 per cent.

Mauritius has one of the highest literacy rates among developing countries – more than 95 per cent of people under 30. A February 2003 survey showed that 78 per cent of 1 092 pre-primary schools were privately-run, 17 per cent run by a government-backed pre-school trust fund (PSTF) and 5 per cent by town and village councils. These schools have 38 620 children over 3 years old, making for a gross enrolment rate (percentage of all children between 4 and 5) of 99 per cent. In February 2003, there were 291 primary schools, most (221) run by the government, 51 by the Catholic Church, 2 by Hindu authorities and 17 as private, non-denominational schools. The primary school population fell to 129 616 in 2003 (from 132 432 in 2002) but gross enrolment remained high, at 102 per cent. Gross secondary enrolment rose to 66 per cent (64 per cent in 2002), with 103 847 pupils, 48 per cent of them boys and 52 per cent girls.

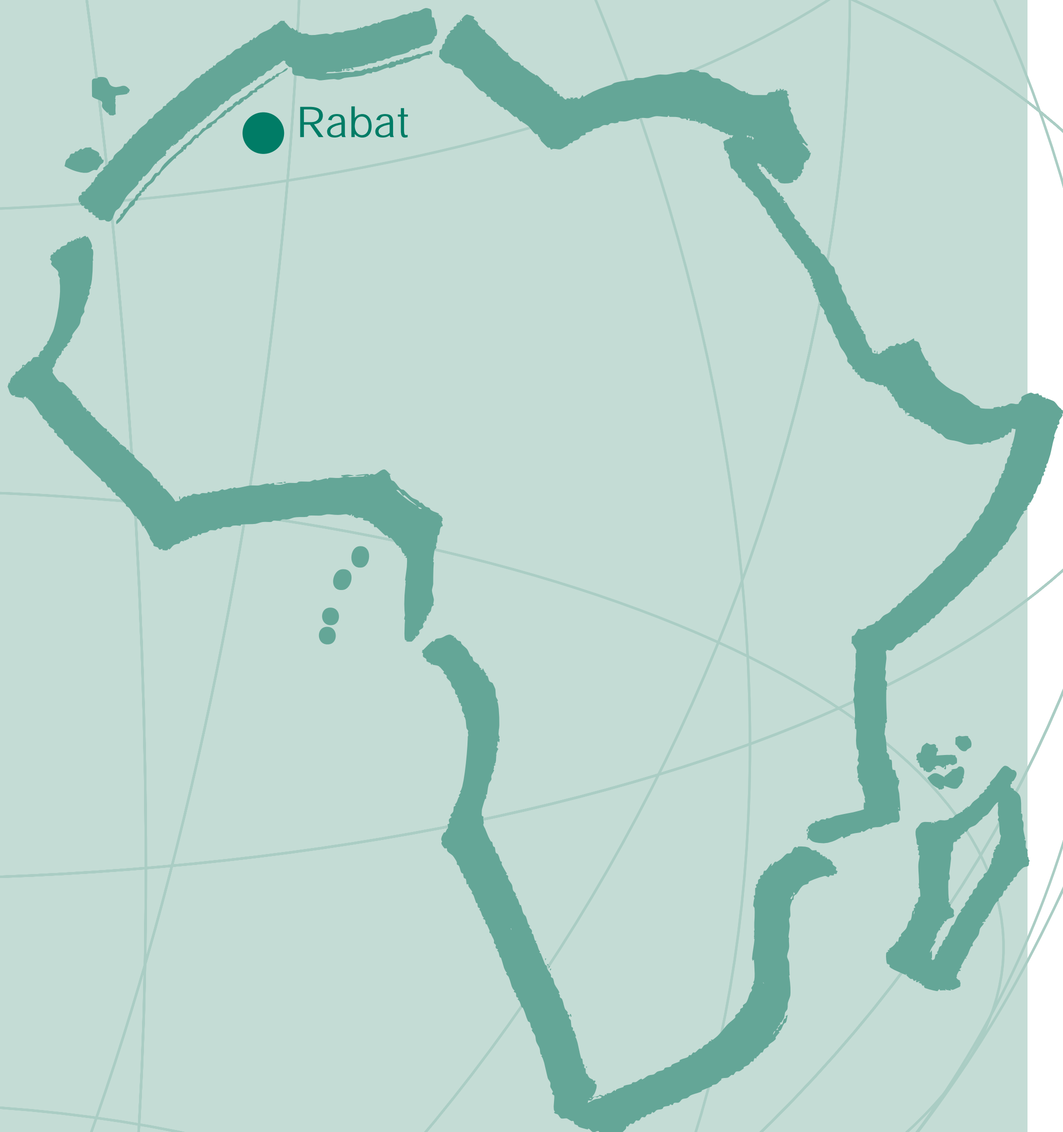
The system performs well but is quite elitist and selection to pass from primary to secondary school is very demanding. Some 65 per cent (18 079) of primary pupils (71 per cent girls and 60 per cent boys) managed this in 2002 (out of 27 842 candidates – 14 486 boys and 13 356 girls). The 35 per cent who failed (who are too young for vocational training, which begins at 15) are not looked after by the system and add to the growing unemployment rolls. Reforms are needed to make the system fairer and better adapted to the labour market in the interests of social stability. Raising the school-leaving age from 9 to 11 should be accompanied by efforts to improve the image of vocational training.



© AfDB/OECD 2004

An OECD Browse_it Edition • Lecture seule • Read Only

# Morocco




**key figures**

- Land area, thousands of km² 447
- Population, thousands (2002) 30 072
- GDP per capita, $ (2002) 1 200
- Espérance de vie (1995-2000): 68.7
- Illiteracy rate (2002) 49.3

An OECD Browse_it Edition • Read Only • Lecture seule

# Morocco

**E**FFORTS IN RECENT YEARS to consolidate macroeconomic stability produced growth of about 5.8 per cent in 2003, with 2.6 per cent predicted in 2004 and 4 per cent in 2005. The 2000-02 average of 3.5 per cent was an improvement on the 1.4 per cent of 1990-95. However, growth is very erratic because it still depends heavily on agriculture, despite government attempts to stabilise the sector and make it less vulnerable to the weather. The macroeconomic situation also improved, with debt reduced to 35.7 per cent of GDP in 2002 and inflation below 3 per cent (2.8). Inflation fell in 2003 but is expected to rise in 2004 and 2005.

Government finances have been tied to the proceeds of privatisation for the past two years and will continue to be as the government copes with a drop in revenue due to gradual abolition of tariffs under Morocco's free trade association agreement with the European Union. It faces rising demands from social sectors (education, health), where much also remains to be done to reduce social and regional disparities in the fight against poverty, which increased by 6 percentage points during the 1990s. With the idea of consolidating what has already been obtained, the government is determined to launch a further round of institutional and structural reforms to encourage the private sector, increase productivity and competitivity and ensure higher and more sustainable growth for comprehensive social development.

The government is to launch a further round of institutional and structural reforms.



Figure 1 - **Real GDP Growth**

**Source:** National Statistic Office data; projections based on authors' calculations.

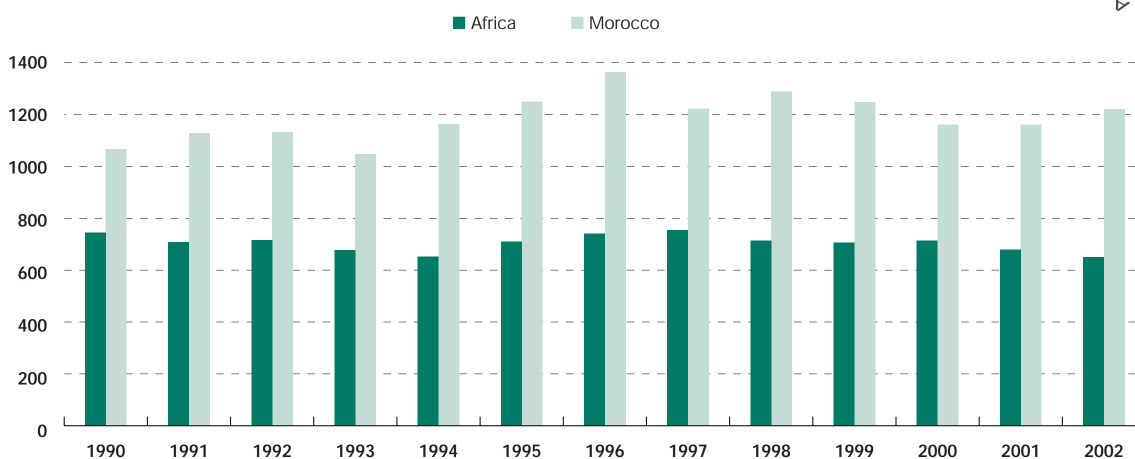
## Recent Economic Developments

The slowdown of growth in 2002 was not due solely to problems in agriculture, as on several recent occasions, but to a sharp fall in non-agricultural GDP, which grew only 2.8 per cent (3.6 per cent in 2001) because of slack industrial activity, the international economic downturn and the effect of terrorist attacks on tourist arrivals.

Despite growing 5.6 per cent in 2002, the primary sector did not manage to repeat its outstanding 2001 performance, when it bounced back after poor harvests in 2000. The slowdown would have been greater but for good results in cereals (+14.8 per cent), citrus fruit (+16.6 per cent), legumes (+46.25 per cent) and market gardening (+14.5 per cent). Livestock also did well thanks to government help, with cheap supplies of feed to make up for lack of fodder and with continued

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

veterinary care. Fishing production fell 12.8 per cent in 2002.

Morocco continued to extend and upgrade irrigated areas to stabilise the agricultural supply and make it less vulnerable to the weather, notably by strengthening a national programme to encourage local irrigation and use water more effectively. The government also sought to increase incomes in poorer regions by pursuing and boosting a rural development project in the mountain areas of Haouz province (over 239 200 hectares for 118 000 people) and an integrated rural development project in the Taourirt-Tafoughalt region (over 646 000 hectares). It is also working specifically to conserve forest resources for environmental reasons through a 20-year programme to plant a million hectares with trees and a plan to fight desertification.

The government did not renew Morocco's fishing agreement with the European Union and after consultations with the industry focused on a 2003-07 programme to increase production to 1.7 million tonnes and exports to 20 billion dirhams ($1.8 billion) and also create 30 000 jobs by 2007. It will expand industry infrastructure and set up new fisheries, develop aquaculture, modernise the fleet, boost maritime training and research and adopt a fishing code (recently sent to the government for approval).

Real agricultural output is expected to rise 19.9 per cent in 2003, mainly because of a good cereals harvest (nearly 77.6 million quintals), and then fall by 4.8 per cent in 2004.

Manufacturing growth slowed to 3.3 per cent in 2002 (from 4.2 per cent in 2001 in real terms). Chemicals and parachemicals grew 5.3 per cent (4.5 in 2001), but all other components slumped. Food processing grew only 1.6 per cent (7 in 2001), metal, mechanical, electrical and electronic industries 3.5 per cent (4.4 in 2001) and textiles and leather 1.2 per cent (1.4 in 2001).

Growth in the mining sector speeded up a little (3.2 per cent in 2002, against 2.9 per cent in 2001) despite slack international demand and lower world prices for most of Morocco's exported minerals. Energy sector growth slowed in real terms to 3 per cent (7.8 per cent in 2001) as refinery output fell after a fire at the SAMIR refinery in November 2002. Production was gradually restored in 2003 as the three damaged units were reopened in January, March and July.

Growth in construction slowed to 5 per cent in 2002 (5.9 per cent in 2001) due to a 1.8 per cent cut in public works investments after three years of significant expansion.

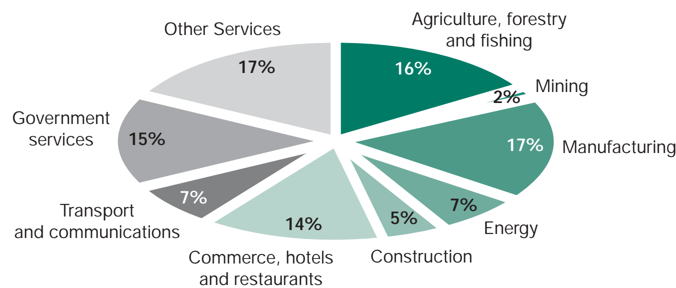
Overall growth in the secondary sector, which was 30.3 per cent of GDP in 2002, slowed to 2.7 per cent (5 per cent in 2001) but is expected to rise to 3.4 in 2003 and 4.4 in 2004.



 © AfDB/OECD 2004

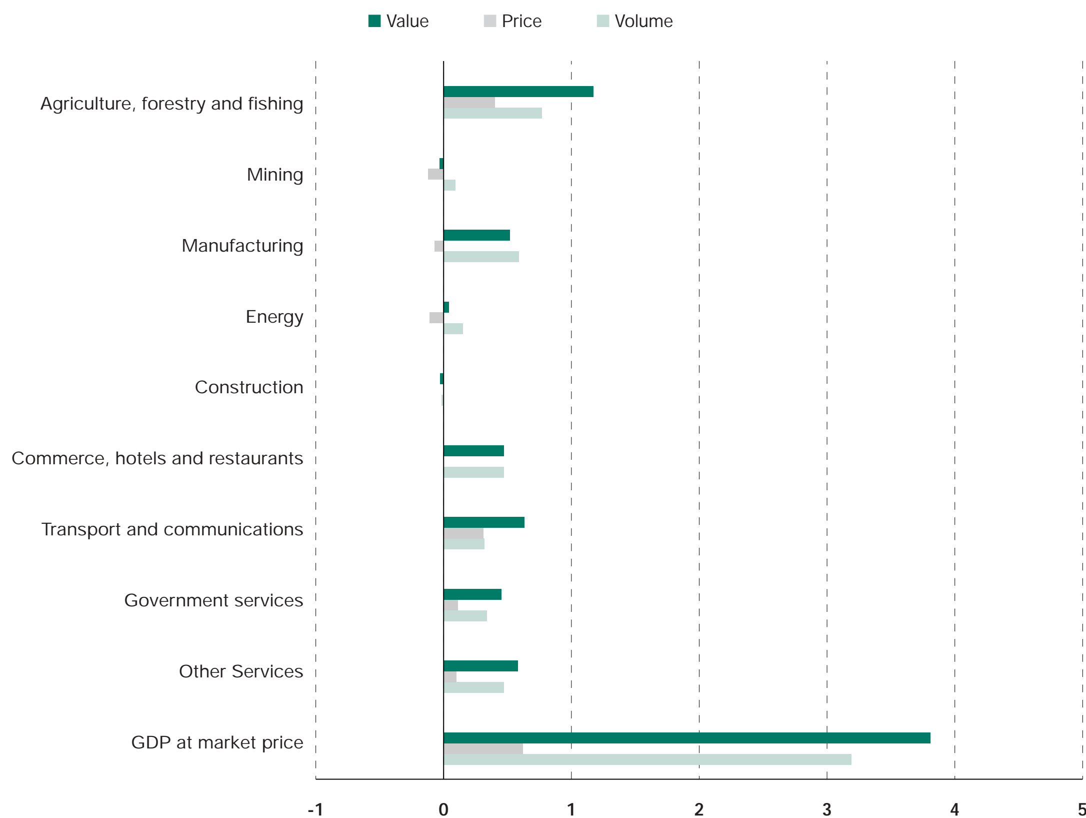
OECD Browse_it Edition • Read Only • Lecture seule

**Figure 3 - GDP by Sector in 2002**




**Source:** Authors' estimates based on National Statistics Office data.

**Figure 4 - Sectoral Contribution to GDP Growth in 2002**




**Source:** Authors' estimates based on National Statistics Office data.

The services sector, at a steady 38.8 per cent of GDP in 2002, speeded up with 3.2 per cent growth (2 per cent in 2001), lifted by transport and communications (+4.5 per cent, -0.2 in 2001) and commerce (+3.9 per cent, 3.1 in 2001), which partly compensated for the sharp 7.5 per cent drop in hotel and restaurant activity (-1.1 in 2001) because of 1.2 per cent fewer foreign tourist arrivals (excluding Moroccans living abroad and cruise ship passengers) and a 10.9 per cent drop in overnight stays in graded hotels (-6.2 in 2001). Financial services were also down to 2.8 per cent growth (4.4 in 2001), reflecting the overall reduction in economic activity.

The services sector had better growth (3.6 per cent) in 2003, owing to the general improvement of the

OECD Browse_it Edition • Read Only • Lecture seule

economy over the year, and this should increase in 2004 to 4.9 per cent.

Private consumption rose only slightly in 2002 and 2003, despite inflation being under control and a fall in unemployment. Private investment was sluggish in 2003 and gross capital formation is estimated to have declined due to less private investment and stagnant public investment. But both private and public funding should pick up in 2004 and 2005.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **20.7** | **23.2** | **23.4** | **22.7** | **20.6** | **21.6** | **22.3** |
| Public | 3.7 | 3.0 | 2.9 | 2.7 | 2.7 | 2.9 | 3.1 |
| Private | 17.0 | 20.1 | 20.5 | 20.0 | 17.9 | 18.7 | 19.2 |
| **Consumption** | **88.9** | **88.2** | **86.6** | **86.5** | **82.5** | **80.6** | **80.4** |
| Public | 17.4 | 19.1 | 19.8 | 20.1 | 19.1 | 19.1 | 18.9 |
| Private | 71.5 | 69.1 | 66.8 | 66.4 | 63.4 | 61.5 | 61.6 |
| **External sector** | **-9.6** | **-11.4** | **-10.0** | **-9.2** | **-3.1** | **-2.2** | **-2.7** |
| Exports | 23.6 | 24.9 | 25.1 | 26.5 | 30.4 | 30.5 | 30.1 |
| Imports | -33.2 | -36.3 | -35.1 | -35.6 | -33.5 | -32.7 | -32.8 |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.



## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Government funds to meet increasing demands for more and better health care and education and to reduce social and regional inequalities currently come largely from the proceeds of privatisation and dwindling customs revenue. The task is more difficult because Morocco has decided to join seriously the world economy, which requires a budget that gets the private sector moving and makes the economy more competitive.

Revenue (excluding special government accounts) fell to 95 500 million dirhams ($8.7 billion) in 2002 from 116 000 million ($10.3 billion) in 2001 mostly due to smaller privatisation proceeds, which were only 621 million dirhams ($56 million) in 2002, sharply down from the 23 400 million ($2.1 billion) of the previous year. The shortfall was partly offset by a 4 per cent rise in tax revenue, including a 2 216 million dirhams ($200 million) rise in direct taxes, 880 million ($80 million) in indirect taxes and 453 million ($40 million) in registration fees and stamp duty. Customs revenue fell very slightly (0.9 per cent) to 12 233 million dirhams ($1.1 billion) in 2002 as the third stage of tariff dismantling came into force in March 2002 as part of the EU association agreement to set up a free-trade area.

Privatisation revenue came almost entirely from disposal of the first tranche of capital of the Banque Centrale Populaire (544 million dirhams – $50 million) and of FERTIMA (77 million dirhams – $7 million). This was less than expected because the opening up of the Regie des Tabacs and Morocco Telecom was postponed.

Total expenditure (excluding special funds) in 2002 fell 2.3 per cent to 108 055 million dirhams ($9.8 billion) from 110 576 million dirhams ($9.7 billion) in 2001 as a result of government efforts to curb the budget deficit as revenue fell. Ordinary expenditure was down 1.5 per cent because of a 52 per cent drop in government subsidies to 2 352 million dirhams ($210 million), from 4 892 million ($430 million) in 2001, as price support ended for food oils and industrial sugar as the first steps to a total reform of subsidies.

Ordinary spending also fell because of a net 7.2 per cent drop in debt interest payments (-28.3 per cent on external and 2.6 per cent on internal debt). Public investment was also cut in 2002 by 5.5 per cent, to



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



19 259 million dirhams ($1.7 billion) from 20 396 million in 2001 ($1.8 billion), and directed towards infrastructure, anti-drought measures and social sectors.

All this produced a higher budget deficit in 2002, of 17 050 million dirhams ($1.6 billion), up from 10 041 million ($900 million) in 2001, or 4.3 per cent of GDP (2.6 per cent in 2001). It narrowed slightly in

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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[a] | **23.9** | **26.2** | **30.3** | **24.0** | **23.1** | **23.1** | **23.0** |
| Tax revenue | 21.6 | 22.7 | 22.0 | 22.0 | 21.1 | 21.1 | 21.0 |
| **Total expenditure and net lending**[a] | **29.1** | **32.1** | **32.8** | **28.2** | **26.9** | **26.3** | **26.2** |
| Current expenditure | 22.1 | 24.2 | 23.5 | 22.3 | 21.0 | 20.6 | 20.2 |
| *Excluding interest* | *16.2* | *18.9* | *18.6* | *17.9* | *17.0* | *17.0* | *16.8* |
| Wages and salaries | 11.2 | 12.0 | 12.5 | 12.2 | 11.8 | 11.7 | 11.6 |
| Interest | 6.0 | 5.3 | 4.9 | 4.4 | 4.0 | 3.5 | 3.3 |
| Capital expenditure | 5.6 | 5.4 | 5.3 | 4.8 | 4.9 | 5.2 | 5.5 |
| **Primary balance** | **0.8** | **-0.6** | **2.3** | **0.1** | **0.2** | **0.3** | **0.1** |
| **Overall balance** | **-5.2** | **-5.9** | **-2.6** | **-4.3** | **-3.8** | **-3.2** | **-3.2** |

a. Only major items are reported.
**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

2003 (to 3.8 per cent) and may fall further in 2004 and 2005 (to about 3.2 per cent) as government spending is cut further.

Growth of the money supply (M3) slowed in 2002 to 6.4 per cent (after soaring 14.1 per cent in 2001) because net external assets only grew 8.7 per cent (86.4 per cent in 2001 due to an influx of private investments and loans linked with privatisation). Internal assets increased 4.1 per cent (3 per cent more credits to the government and 4.3 per cent more to the economy). Growth of credits to the economy has dropped sharply since 2000 (to an average 4 per cent a year between 2000 and 2002, compared with 9 per cent between 1998 and 2000) and affected mostly equipment credits (down 7.2 per cent), while credits to consumption grew 1.1 per cent and to housing 14.5 per cent.

Bank assets rose 6 per cent in 2002, while the liquidity rate (M3/GDP) increased 3.6 per cent to 99.4 per cent (95.8 per cent in 2001), despite efforts by the Banque Al Maghrib (the central bank) to mop up excess liquidity on the money market and raising the obligatory reserve ratio from 10 to 14 per cent. It also allowed banks to make currency investments abroad and make loans to non-resident foreigners in dirhams repayable in foreign currency investment in the case of building or buying property in Morocco.



Inflation rose to 2.8 per cent in 2002 (0.6 per cent in 2001), mostly because of higher food prices (up 4.3 per cent, after falling one per cent in 2001) which cancelled out a slowing of price increases in non-food goods to 1.4 per cent (2 per cent in 2001). Inflation in 2003 fell to 1.2 per cent, due to successful monetary policy, and should be about 2 per cent in 2004 and 2005.

The central bank's monetary policies led to a 2.5 per cent drop in the dirham against the euro in 2002 (-3.4 per cent in 2001, which largely offset its 6.3 per cent rise in 2000. However, the dirham rose 2.8 per cent against the dollar (-7 per cent in 2001 and -8.2 per cent in 2000). The bank's aim was to make Moroccan firms more competitive, especially for the European market, and able to face growing foreign competition in a difficult world economic situation. The policy continued in 2003, when the dirham fell 4 per cent against the euro and 15.5 per cent against the dollar.

### *External Position*

The government's foreign trade reforms, begun in the late 1980s, helped the opening up of the economy but

© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

were not enough to prevent firms becoming less competitive in the 1990s. This was partly because macroeconomic policy caused a rise in the real exchange rate during the decade, made worse by the fact that most competing economies carried out real devaluations, and partly because reforms were not backed up by structural reforms to improve productivity and the business climate.

The opening up of the economy has increased in recent years with ratification in 2000 of the 1996 association agreement with the European Union involving gradual abolition of tariff barriers on both sides for manufactured goods. The third and final stage of dismantling them for goods from the EU not produced in Morocco was implemented in 2003, after duties on products competing with Moroccan goods were reduced in March 2003 by an initial 10 per cent, with complete abolition due by 2012 in annual 10 per cent tranches. The share of exports in GDP grew 0.6 per cent in 2002, which was 7.1 per cent more by value, through increased exports of semi-finished (+14 per cent) and finished (+3.7 per cent) consumer goods, as well as food items (+8.8 per cent).

Exports of electrical and electronic goods rose 29.2 per cent (-4.7 in 2001) and clothing 7.3 per cent (+6.2 in 2001). The national phosphates company OCP's exports

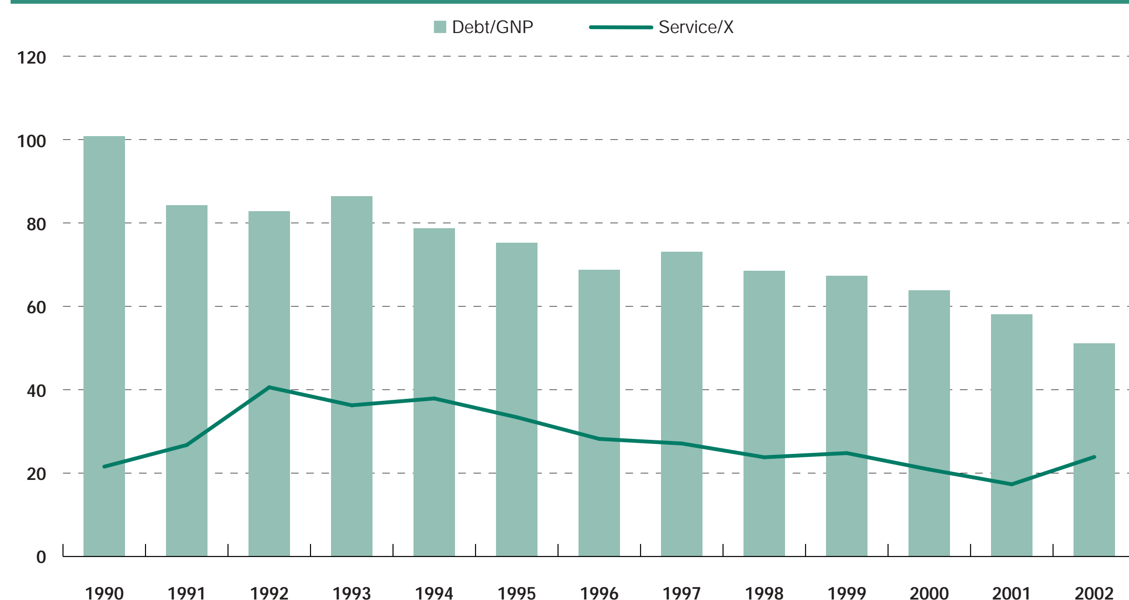
Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -9.4 | -12.3 | -11.5 | -11.1 | -11.8 | -11.6 | -12.1 |
| Exports of goods (f.o.b.) | 21.0 | 22.3 | 21.1 | 21.7 | 19.0 | 18.5 | 18.1 |
| Imports of goods (f.o.b.) | -30.3 | -34.6 | -32.6 | -32.8 | -30.8 | -30.1 | -30.1 |
| Services | 2.9 | 6.1 | 8.3 | 8.0 | | | |
| Factor income | -4.0 | -2.6 | -2.5 | -2.0 | | | |
| Current transfers | 6.9 | 7.4 | 10.5 | 9.2 | | | |
| **Current account balance** | **-3.6** | **-1.4** | **4.8** | **4.1** | | | |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.



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




**Source:** World Bank.


© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • A Read Only



(phosphates, natural fertilisers and phosphoric acid) declined by 3.4 per cent in 2002 (+2.4 per cent in 2001) because of drops in sales of phosphates (5 per cent) and of natural fertilisers and phosphoric acid (7.5 per cent).

Imports in dirhams grew 2.8 per cent by value in 2002 and fell 0.2 points in percentage of GDP due to more imports of equipment (13.6 per cent), raw materials (13.7 per cent) and finished consumer goods (4.7 per cent) and fewer imports of food (1.7 per cent) and crude oil for processing (11.2 per cent) because of the SAMIR refinery fire.

Despite the encouraging export situation, the country has a structurally high deficit that was 44 billion dirhams ($4 billion) in 2002 (11.1 per cent of GDP). However, with tourist revenue at 29 billion dirhams ($2.6 billion) and especially net current transfers (though falling) at 36.6 billion dirhams ($3.3 billion) (40.2 billion dirhams en 2001), the economy had a current account surplus in 2002 of 16.3 billion dirhams ($1.4 billion) (18.4 billion dirhams – $1.6 billion in 2001), or 3.8 per cent of GDP. It was about the same in 2003 as exports and imports remained steady, but were expected fall again in 2004 and 2005.

The capital and financial operations account had an 8.4 billion dirhams ($760 million) deficit in 2002 however – after a 22.6 billion dirhams ($2 billion) surplus in 2001 – due to a sharp drop in private foreign loans and investments and a higher (16.4 per cent) deficit in public sector financial operations because of a 10.5 per cent rise in external debt repayments as part of more active handling of the debt. All this enabled significant reduction of the external debt, to 51 per cent of GNP in 2002 (58.1 in 2001), and net external assets increased to the equivalent of 9.4 months of imports (9.1 in 2001).

## Structural Issues

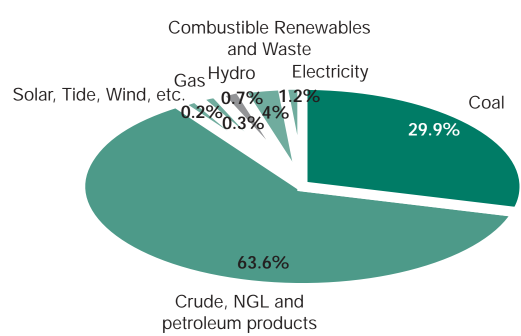
Morocco needs an annual growth of 5-6 per cent to improve living standards, cut unemployment and reduce poverty. To do that, it needs to boost factor productivity by modernising companies (also necessary if the country is to profit from the EU free-trade upgrading agreement) and improve the business climate to stimulate foreign investment. This involves deregulation to enable greater competition and labour flexibility, as well as completing reform of the financial sector.

As for energy, Morocco mostly uses fossil fuels (65 per cent oil, 27 per cent coal) and a lack of domestic energy sources makes the country dependent on other countries for 90 per cent of its needs.

To ease this dual dependence on growth and on standards of living, especially in the countryside, the government aims to ensure a steady supply of cheap energy, provide universal access to commercial energy in town and in rural areas, while preserving the environment. To reach these goals, it opened up the energy sector in 1994 by ending the monopoly of the state electricity company, ONE, and allowing franchises



Figure 6 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

OECD Browse_it Edition • Read Only • Lecture seule

to generate current and private firms to distribute it in major cities (Lydec in Casablanca, Rédal in Rabat and Vivendi in Tetouan and Tangiers).

The state oil distribution companies were also privatised in 1994, and the two refinery firms – SAMIR and SCP – were sold in 1997 to Corral Petroleum, which merged them in June 1999. The state oil prospection firm ONAREP and mining firm BRPM were merged in 2000. A new oil and gas sector law came into effect in 2000 to encourage private initiative and partnership with tax holidays and streamlined contract procedures.

The government is also trying to diversify energy sources and ONE has 24 hydroelectric plants that (except in drought years) can supply 8 per cent of the country's electricity needs. Morocco turned to coal in the 1980s to satisfy demand from cement and sugar factories and some of ONE's thermal plants.

A section of the gas pipeline from North Africa to Europe has run through Morocco since 1996 and an extension is being built. The country has been connected to the Spanish national electricity grid since 1997, with a doubling of capacity planned and a third line to Algeria. ONE signed a deal with Endesa and Siemens in December 2002 to build a gas-fired combined-cycle power station at Tahaddart. Work on it began in February 2003 and it should be complete in February 2005 and eventually able to supply 17 per cent of the country's electricity needs.

Renewable energy is being pushed with the building of a wind farm at Koudia Baida in 2000 and tax holidays since 1996 on equipment using wind power. The government has set up a peaceful nuclear energy body (the Centre National de l'Energie, des Sciences et des Techniques Nucléaires) to work with the United States to build an experimental reactor at Maâmora.

Tax and pricing reforms were made in the energy sector in 1995 to improve performance and secure budget revenue. Prices of refinery products are indexed to international prices in Rotterdam, those of other products (base oils, bitumen, paraffin and propane) were decontrolled and duty on imported oil was replaced by domestic consumption taxes (TIC) on refined products.

All this made some firms less competitive, so the government granted exemptions to the fishing, sea and air transport sectors, introduced a drawback system to refund electricity taxes to exporters of items such as cement, cement construction products, tyres and clinker, cut by more than half the TIC on fuel used to produce electricity and from 2001 gradually extended the principle of deducting VAT, as on diesel fuel for public transport and freight haulage.

The government temporarily exempted refined oil imports from duty in 2002 and suspended TVA and cut duty by 2.5 per cent on imported butane and propane. This was done after the fire at the SAMIR refinery.

The government wants to modernise industrial performance and improve firms' operational environment and is getting help under the European Union's MEDA programme. The industry, trade and telecommunications ministry is in charge of the modernisation, which is carried out by a national committee, the CNMN. It involves professional training, as well as promoting exports and investment finance methods. But the rate of higher and middle-level training has not increased and funding from MEDA has not been enough to persuade firms, especially smaller ones, to improve their workers' skills.

New funding instruments include the Caisse Centrale de Garantie (CCG), specialised funds and external credit lines. The CNMN boosted the modernisation programme in June 2003 combining investment and export promotion in a single body (ONIX) and set up the Institut Marocain de la Normalisation (IMANOR) and the Comité Marocain d'Accréditation (COMAC). The government also plans to establish quality control of goods, services and industrial plant.

Making the economy more efficient also means continuing the privatisation programme which began in 1993 but has slowed in recent years. The Régie des



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule


Tabacs, which should have been disposed of in 2002, was sold in 2003 for 14.1 billion dirhams ($1.5 billion) and was the only major privatisation that year. The government is counting in 2004 on 12 billion dirhams from the sale of a second 20 per cent share of the Banque Centrale Populaire (the first was of 21 per cent in 2002) and the sale to Vivendi Universal of 16 per cent of Maroc Télécom, which will also be floated on the stock exchange.

The central bank made reforms in 2002 to strengthen the banking sector and improve the working of the capital market in an effort to raise money to restructure and modernise the economy. Prudential rules were reformed, concerning external auditing of credit houses, approval of auditors and the extent of their work. The bank has also changed rules about classification of loans and their security and extended such rules to finance companies.

The central bank is getting more power to regulate the banking system under a draft banking law and more independence to conduct monetary policy (under a special draft law on the bank's status). It will also dispose of its shares in credit houses, which should boost its supervisory role in the sector. The Banque Nationale de Développement Economique has been made into a commercial bank, the Crédit Populaire du Maroc into a limited company and the Crédit Immobilier and Hôtelier is being reorganised.

## Political and Social Context

Much has changed in Morocco over the past decade, including moves to democratise public life and make government and public institutions operate more transparently. A key to this was amending the national constitution in 1996 under the late King Hassan II to, among other measures, give more power to parliament and prepare for elections in 1997, which resulted in a coalition government headed by a senior opposition figure, Abderahaman Youssoufi. Determined to give an impetus to the political transition process, King Mohammed VI, has taken steps to boost civil liberties and human rights.

These include setting up a human rights advisory committee (of all political parties and some NGOs) with wide investigatory powers, reforming the civil liberties code, abolishing the state broadcasting monopoly and creating a national broadcasting watchdog body, strengthening minority rights by setting up a Royal Institute for Amazigh Culture and incorporating its Berber language in schools. Landmark gestures have been allowing the family of executed Gen. Mohamed Oufkir to return from abroad and purging the powerful interior minister Driss Basri.

In the same vein, efforts have been made to boost the government's openness and improve its relations with citizens. These include reforming public procurement, setting up regional boards to audit public accounts, new rules for collections debts to the authorities, a law obliging officials to avoid oral decisions and to explain measures in writing and creating an ombudsman system (Al-Wassit) to hear citizen complaints and mediate in disputes between them and the authorities.

One of the major reforms implemented by the king is the revised Family Law (*moudawana*), adopted in early 2004 and giving both spouses shared authority in the family, abandoning the rule of obedience to the man, raising the minimum age of marriage for girls from 15 to 18, requiring a court order for divorce and giving a wife the right to ask for one.

The social sector is one of the government's major priorities, for both social reasons (building individual capacity, combating social and regional inequality, poverty and exclusion) and economic ones (skills training and qualifications that firms need to boost their productivity and be more competitive). The government has focused in recent years on fighting growing poverty, which affected 19 per cent of the population (5.3 million people) in 1999, up from 13.1 per cent (3.4 million) in 1990. It was worse in the countryside (27.2 per cent in 1999, 18 per cent in 1990) than in towns and cities (12 per cent in 1999 and 7.6 in 1990).

The economy created nearly 221 000 jobs in 2002, up from only 64 000 in 2001, mainly owing to 52 000



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

new jobs in country areas, which lost nearly 109 000 in 2001. This brought the national unemployment rate down to 11.6 per cent in 2002 (12.5 per cent in 2001) and benefited men much more than women. Joblessness among graduates fell from 26.8 to 25.6 per cent in urban areas and from 15.8 to 13.6 per cent in rural areas. This was much higher than for those without qualifications (10.4 per cent urban and 2.6 per cent rural).

The government has stepped up neighbourhood-oriented approaches with its Integrated Social Development Plan which aims to give the poor access to basic social services, encourage income-generating activity and create jobs for young people.

As well as combating begging and mobile trading and providing help through the national body Entraide Nationale, anti-poverty efforts include improving living conditions and basic rural infrastructure. Policy is guided by a survey showing a need to replace 1.24 million housing units in 2002, two thirds of them unfit for habitation (540 000 sub-standard and 270 000 in slums).

Efforts to tackle the situation include the 10-year National Programme to Prevent and Reduce Unfit Housing (PNRARHI), an updated version of the National Programme to Combat Unfit Housing (PARHI). It aims to increase cheap housing by using three income levels (multiples of the minimum wage) as a guide – houses for the poorest at between 80 000 and 120 000 dirhams ($7 300-$10 900) and for the two other categories at 120 000-150 000 dirhams ($10 900-$13 600) and 150 000-200 000 ($13 600-$18 200). It expands home loan facilities for poor and middle income families through greater involvement of banks in funding cheap housing.

Improving basic rural infrastructure is another government priority to reduce regional disparities and boost standards of living. Three major programmes since 1995 have achieved results in rural areas in electrification (55 per cent coverage in 2002, up from 17 in 1996), water supply (50 per cent, up from 14 in 1994) and road building (7 719 kms).

The government has tried to expand basic health-care facilities and train health workers in a sector that lacks these things, along with adequate infrastructure and equipment. Basic healthcare centres grew from 1 980 in 1998 to 2 341 in 2001 and the number of people per doctor improved from 2 579 in 1998 to 2 123 in 2001. Life expectancy rose slightly to 70 years in 2001 (69.2 in 1998) and child mortality was down to 39 per 1 000 (from 66 in 1980). Vaccination coverage of babies less than a year old was steady at 59 per cent.

There is still far to go in improving health care however. To guarantee better access to healthcare and higher quality, the government is working to strengthen preventive medicine, expand the hospital network, renovate infrastructure, ensure adequate medical supplies and extend coverage.

Based on the recommendations of the Education and Training Charter, the government has begun reforming the education system through laws setting up regional educational and training colleges, reorganising school life, amending the statutes of state schools and revamping basic education. First results are promising but insufficient, especially at secondary, higher and vocational training levels, in view of the population's expectations and the needs of the economy.

The most progress has been made at primary level, where net enrolment of 6-11 year-olds had risen to 92 per cent in the 2002/03 school year, from 69 per cent in 1997/98. It was especially good in the countryside, where the figure for boys was 87 per cent (up from 55.4) and 82.2 per cent for girls (up from 44.6). Nevertheless, the overall net primary enrolment rate still falls short of the goals of the Charter (95 per cent for 2002/03) which the government blames on a year-long delay in implementing the reforms.

Enrolment of 12-14 year-olds in 2002/03 was 66.3 per cent (53.7 per cent in 1997/98), with rural areas showing a rise to 47.4 per cent (from 29.7) and a doubling of girls' enrolment to 39 per cent. Overall secondary level enrolment was 41.2 per cent (14.2 in



 © AfDB/OECD 2004

An OECD Browse_it Edition • Lecture seule • Read Only

rural areas) in 2002/03, not enough to meet the economy's many requirements and challenges. Higher education also fell short with only 0.9 per cent of the population enrolled there in 2002/03 (1.6 per cent in Algeria and 2.3 per cent in Tunisia).

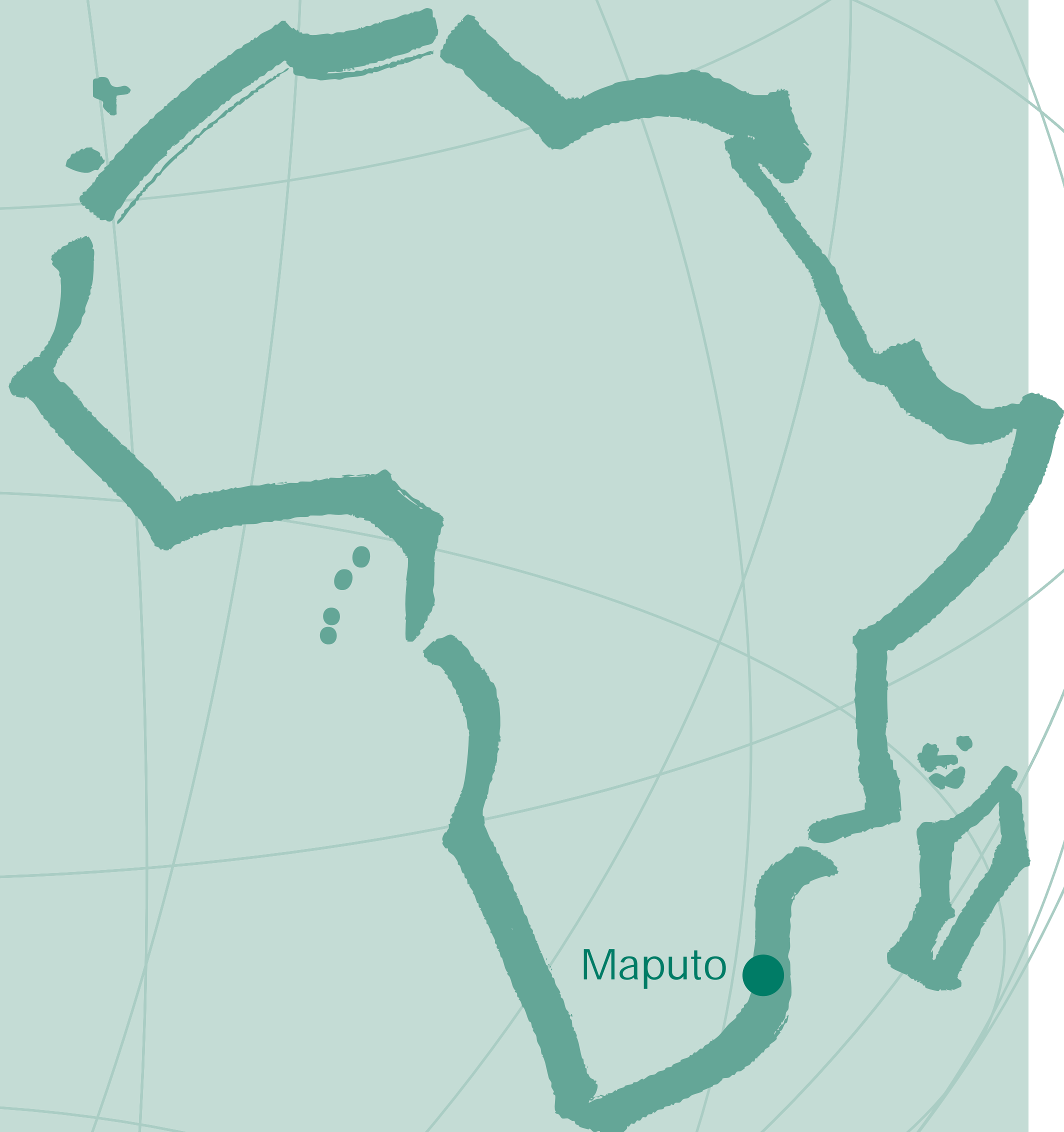
These figures show that despite some progress and government efforts (6.5 per cent of GDP spent on education), more action is needed, especially as illiteracy remained at a high 49.3 per cent in 2002, despite more personnel and money focused on it.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

# Mozambique




**key figures**

- Land area, thousands of km² 802
- Population, thousands (2002) 18 537
- GDP per capita, $ (2002) 194
- Life expectancy (2000-2005) 38.1
- Illiteracy rate (2002) 53.4

An OECD Browse_it Edition • Read Only • Lecture seule

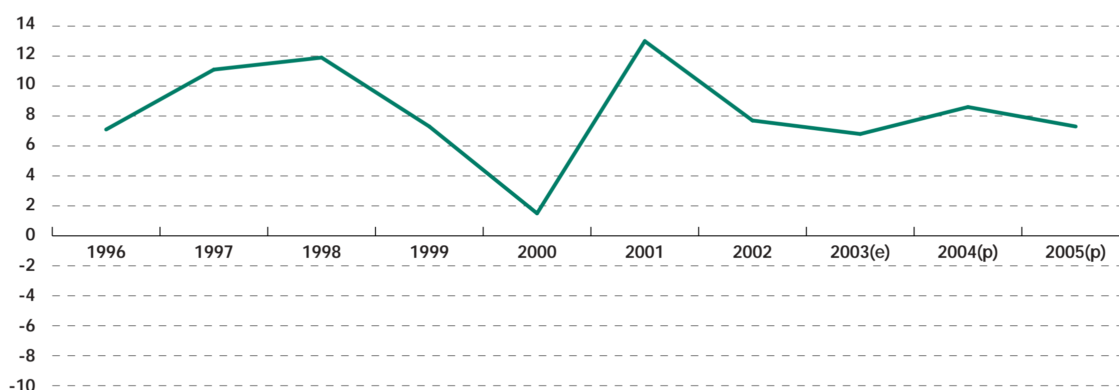
MOZAMBIQUE IS TODAY CITED as an example for the success of the economic reforms it has undertaken since the end of the civil war in 1992. These have resulted in remarkable growth rates which averaged around 8 per cent between 1995 and 1999. In 2000, the floods reduced growth to 1.5 per cent. Then, thanks to reconstruction of the infrastructures destroyed by the floods, carried out with the help of donors, and to good performances from the Mozal I aluminium smelter, the economy made up the lost ground with a 13 per cent increase in gross domestic product in 2001. In 2002, activity was again sustained by the reconstruction effort, as well as by the doubling of the capacity of the Mozal smelter and realisation of the Sasol gas pipeline between Mozambique and South Africa. Under these conditions and despite the drought which affected the south and centre of the country, GDP showed 7.7 per cent growth in 2002. In 2003, good performances by the manufacturing, transport and communications and trading sectors resulted in an estimated 6.8 per cent increase in activity. In 2004 and 2005, growth should reach 8.4 and 8.7 per cent respectively thanks to the coming on stream of Mozal II and Sasol.

Foreign direct investment in mega projects continues to remain the primary source of growth.

Private sector investment should be the principle motor of growth over the next few years. The government is making efforts to create an environment favourable to foreign and domestic investment, notably through the restructuring of a banking sector which is still highly concentrated and characterised by wide interest margins, through



Figure 1 - **Real GDP Growth**




**Source:** Domestic authorities' data; projections based on authors' calculations.

improvement of basic infrastructures and through improvement of the business environment via the simplification of regulations. Beyond these positive prospects, however, the country must meet major challenges, notably those of reducing the level of absolute poverty and the rate of prevalence of HIV/AIDS. In February 2003, the authorities published a report evaluating the first year of implementation of the poverty reduction action plan launched in 2000. The evaluation turned out to be fairly positive with regard to the results obtained in health and education, in particular in such fields as the fight against HIV/AIDS (detection and prevention), vaccination cover and access to primary education.

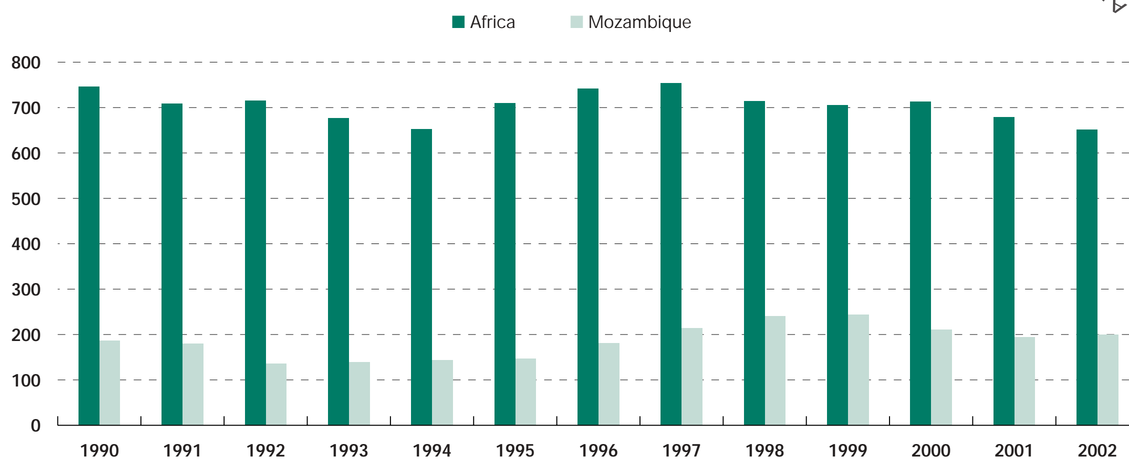
## Recent Economic Developments

Since 1996, the government has been striving to improve the economic environment which has stabilised under

© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

the influence of such different factors as the return of peace, the support of international donors for reconstruction and generally favourable climatic conditions, excepting the flooding in 2000. On this basis, Mozambique showed a record GDP growth rate of close to 13 per cent in 2001 before dropping to 7.7 per cent in 2002. Thanks to major investment projects, the key economic sectors showed strong growth in 2003.

The agricultural sector represents 20 per cent of GDP. It consists essentially of subsistence agriculture and agriculture for export, predominantly cotton, cashew nuts and, above all, sugar cane. Despite the drought in the south, agricultural activity is thought to have grown by 4.2 per cent in 2003. This performance is due to growth in production of food and an increase in the production of cash crops, particularly for products such as sugar cane. This improvement in production is the result not only of good climatic conditions but also of major investment. The influx of commercial farmers from Zimbabwe, concentrated in zones on the Mozambican border (the province of Manica), also had a positive impact.

In the sugar cane sub-sector, foreign capital has flowed in on a massive scale under the effect of government incentives. Sugar was exempted from VAT in 2002 with the aim of stopping smuggling from Zimbabwe. In addition, the expectation of low prices for other products such as cashew nuts encouraged a number of small farmers to switch to more profitable crops, for example, sugar cane. In 2002, about 60 per cent of land planted with sugar cane was held by the large planters and only 40 per cent by the small planters. Even if sugar cane has above all benefited the large producers in recent years, rehabilitation of the sugar industry has generated work in the rural areas and created additional work for the small farmer population. Overall, the sector experienced exceptional growth of more than 130 per cent in 2002, and continued to grow in 2003 by an estimated 30 per cent.

In addition to sugar cane, other cash crops showed good performances. More particularly, cotton production has practically doubled these last two years, rising from 11 251 tonnes in 2000 to 25 000 tonnes in 2002. Growth slowed down in this sector in 2003, however, as a result of low prices on international markets.

The performance of the cashew nut sub-sector has been poor. Already in the 1990s, liberalisation of the sector had a negative effect on farmers' revenues. Since 2000, the collapse of international prices has meant that it is no longer profitable to use fertilisers and other treatments. The sector's poor performances have not encouraged producers to invest in labour training or equipment and production has dropped regularly since 2000, falling by 6.4 per cent in 2002 and by 0.1 per cent in 2003.

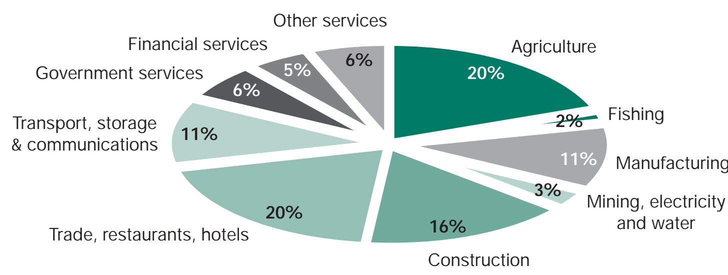




© AfDB/OECD 2004

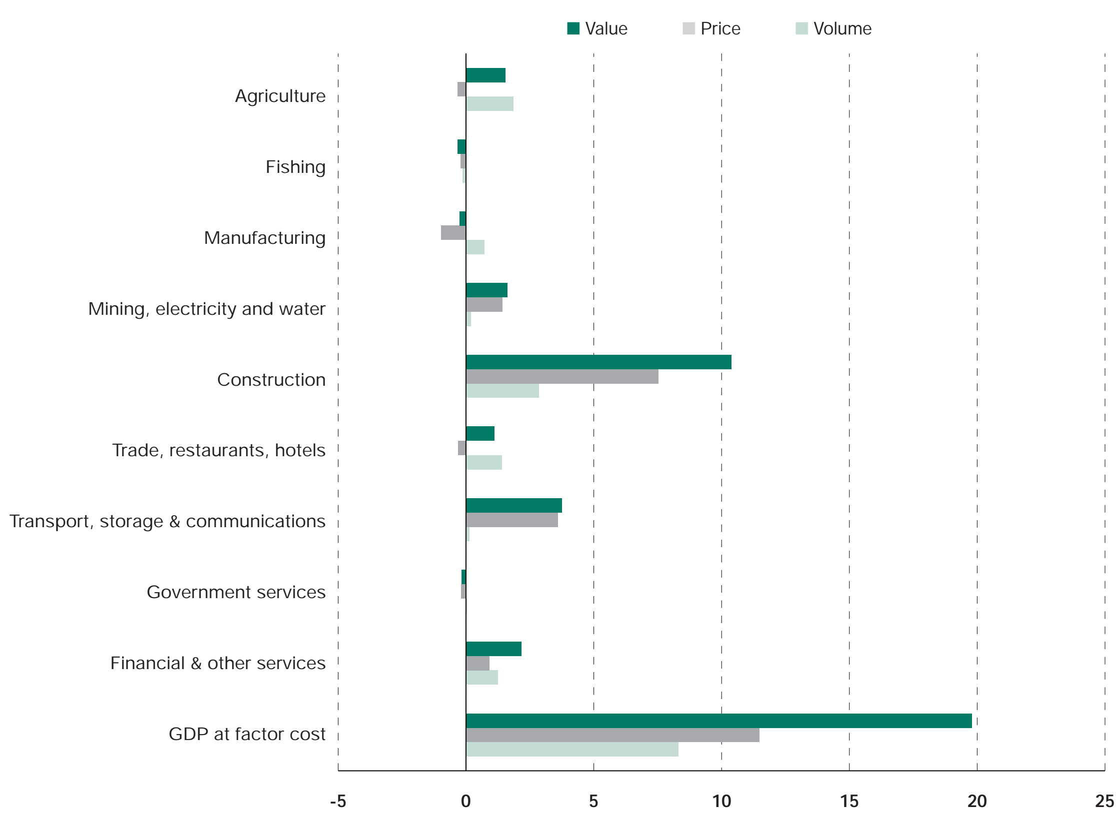
An OECD Browse_it Edition • Read Only • Lecture seule

Figure 3 - **GDP by Sector in 2002**




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

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**




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

The dominant food crops are manioc and corn. In 2002, production of manioc was 5 400 000 tonnes, compared with 5 361 974 tonnes in 2000, and corn production was 1 236 000 tonnes in 2002, compared with 1 019 033 tonnes in 2000. Mozambique exports part of its production towards neighbouring countries but the large amount of food aid received by Malawi in recent years has raised questions about outlets.

Despite the progress recorded over the last five years, the country's agricultural potential remains partly unexploited. This can be explained by the lack of infrastructures, insufficient productivity and market fragmentation. To remedy these problems and improve co-ordination between the different operators in the sector, an agricultural investment programme (Proagri) was introduced by the Ministry of Agriculture and



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

Rural Development in 1997. Although the results of the first phase were mitigated, a second phase of the Proagri programme was approved in 2003. It fixes as a priority for the government, non-governmental organisations and foreign companies the creation and promotion of outgrower schemes, farmers' associations and other innovations likely to have a positive impact on the productivity and organisation of activities in the agricultural domain.

The manufacturing sector has experienced strong growth since 2001. The dynamism of production at Mozal I, which, at $1.3 billion, represents the biggest direct foreign investment ever realised in Mozambique, led to the construction of Mozal II, on which work was completed in 2003. The growth of the manufacturing sector was 4.1 per cent in 2002 and is estimated at 5.1 per cent in 2003. This growth should continue in 2004 as Mozal II is brought into production. Apart from aluminium, the most dynamic manufacturing sub-sectors in recent years have been agricultural processing and construction materials. The industry has benefited from lower import tariffs on intermediate and capital goods, as well as from more efficient customs procedures. The sector continues, however, to face a variety of difficulties which act as obstacles to the development of local privately-owned companies , including a shortage of domestic capital, high borrowing costs, excessive bureaucracy and inadequate infrastructures.

The construction sector has proved particularly dynamic since the end of the 1990s as a result of the major works associated with the inflow of direct foreign investment. After having progressed 51 per cent in 2001, this sector registered growth of 103 per cent in 2002 thanks to the extension of the Mozal smelter and construction of the Sasol gas pipeline. The sector benefited too from an increase in public investment in road infrastructure, the priority of the Ministry of Public Works. The road construction programme launched by the government in 2001 provides for the maintenance of 28 000km of road up to 2003 and the rehabilitation of 2 300km of road per year. In 2003, completion of the large-scale projects led to a 7.8 per cent contraction of the sector which is likely to continue in 2004.

The transport sector also performed well in 2001 as vast port and rail equipment modernisation programmes were launched in the development centres of Maputo, Nacala and Beira.

Since 2000, consumption has fallen as a percentage of GDP to reach 72.9 per cent of GDP in 2001 and then 68 per cent of GDP in 2002. This trend should continue until 2005. This trend reflects the fact that households are devoting an increasing share of their revenues to saving. The gap between savings and investments rates is closing year by year, thus reducing the country's dependence on foreign funds.

If gross fixed capital formation is increasing less rapidly than savings, it nevertheless rose from 41.5 per cent of GDP in 2001 to 44.7 per cent in 2002, thanks notably to an increase in foreign investment. Globally, private



Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **28.0** | **36.6** | **41.5** | **44.7** | **45.5** | **43.2** | **45.8** |
| Public | 16.1 | 10.6 | 16.6 | 14.3 | 11.6 | 11.4 | 10.9 |
| Private | 11.9 | 25.9 | 24.9 | 30.4 | 33.9 | 31.8 | 34.9 |
| **Consumption** | **98.9** | **82.5** | **72.9** | **68.0** | **66.2** | **62.7** | **60.4** |
| Public | 7.8 | 13.3 | 13.9 | 14.3 | 14.9 | 14.9 | 14.6 |
| Private | 91.1 | 69.2 | 59.0 | 53.7 | 51.3 | 47.8 | 45.8 |
| **External Sector** | **-26.9** | **-19.1** | **-14.4** | **-12.7** | **-11.7** | **-5.9** | **-6.2** |
| Exports | 12.1 | 20.2 | 29.2 | 33.0 | 35.6 | 35.2 | 33.7 |
| Imports | -39.0 | -39.3 | -43.6 | -45.6 | -47.3 | -41.1 | -39.9 |

**Source:** Domestic authorities' data; projections based on authors' calculations.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule • A



investment is increasing and it is expected that it will represent well over 30 per cent of GDP over the next three years. The launch of a massive road and transport investment programme resulted in strong growth in public investment in 2001 and 2002. However, government expenditures diminished in 2003, owing to a shortfall in external grants disbursements. External demand is expected to improve over the period forecast owing to a fall in imports of capital equipment following completion of Mozal II and the Sasol gas pipeline.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

In October 2002, the Ministry for Planning and Finance set as a priority the introduction of policies and measures aimed at improving efficiency, transparency and responsible use of public funds. These policies, currently being put into effect, involve the creation of a central revenue authority (Autoridade Tributaria de Moçambique) which brings together notably the domestic tax administration (DNIA) and the client department. In the 2003 budget, the state adopted a system of classification by function which was even more detailed than in 2002.

The overall balance remains largely negative, showing a deficit of 7.9 per cent of GDP in 2002 compared with a deficit of 6.6 per cent in 2001 and 6.1 per cent in 2000. This deterioration in the overall budgetary balance is a result of the greater than proportional increase in current expenditure in relation to fiscal revenue. The budget deficit, just 2.7 per cent of GDP in 2003, was mainly due to a contraction of capital expenditure, including expenditures allocated to poverty-reduction projects. The reduction of this latter is principally attributable to delays in the implementation of local-level projects, themselves resulting partly from a marked fall in donor grants. Part of the reduction in capital spending has been compensated by an increase in current spending and, in particular, by overruns in public sector wages. The high cost of organisation of the 2003 local elections also contributed to the increase in current spending.



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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[a] | **20.9** | **21.3** | **28.1** | **26.2** | **25.2** | **23.6** | **22.6** |
| Tax revenue | 10.2 | 12.1 | 11.8 | 12.5 | 12.9 | 12.6 | 12.6 |
| Grants | 9.7 | 8.0 | 14.8 | 11.8 | 10.4 | 9.2 | 8.1 |
| **Total expenditure and net lending**[a] | **23.9** | **27.4** | **34.7** | **34.1** | **27.9** | **27.6** | **26.7** |
| Current expenditure | 10.1 | 13.6 | 14.7 | 15.8 | 16.2 | 16.1 | 15.7 |
| *Excluding Interest* | *8.5* | *13.4* | *14.0* | *14.3* | *15.0* | *15.1* | *14.8* |
| Wages and salaries | 2.3 | 6.7 | 7.0 | 7.3 | 7.5 | 7.6 | 7.4 |
| Interest | 1.6 | 0.2 | 0.7 | 1.5 | 1.2 | 1.0 | 0.9 |
| Capital expenditure | 13.3 | 10.6 | 16.6 | 14.3 | 11.6 | 11.4 | 10.9 |
| **Primary balance** | **-1.4** | **-5.9** | **-5.9** | **-6.4** | **-1.5** | **-2.9** | **-3.3** |
| **Overall balance** | **-3.0** | **-6.1** | **-6.6** | **-7.9** | **-2.7** | **-4.0** | **-4.2** |

a. Only major items are reported.
**Source:** Domestic authorities' data; projections based on authors' calculations.

Fiscal revenues increased in 2003 achieving 12.9 per cent of GDP compared to 11.8 per cent in 2001. This increase is the result of new measures introduced by the government in 2002 to limit exemptions for investors. Budget revenues also benefited from the introduction of a new personal and corporate income tax code.

Under the terms of the 2004 budget, the government is committed to reducing total expenditure, particularly

OECD Browse_it Edition • Read Only • Lecture seule

the level of the wage bill, and to directing budgetary resources to priority sectors. If expenditure is expected to fall in 2004, however, the reduction will be principally the result of a lower level of capital spending than that anticipated in the budget, while public sector wages will probably progress at a higher rate than that fixed by the authorities. Public revenues should continue to grow, moreover, as a result of greater efficiency in the collection of income and indirect taxes. The authorities also plan to introduce a mechanism for the automatic adjustment of fuel taxes on a quarterly basis in order to prevent the erosion of receipts by inflation. Because of a decline in the concessionality of financing provided by donors (more loans and less grants), however, these measures are not expected to prevent the deficit increasing from 4 per cent in 2004 to 4.2 per cent in 2005.

Inflation is strongly influenced by variations in the exchange rate of the rand since Mozambique imports a great number of food products from South Africa. Control of money supply, along with a series of reforms in the financial sector, allowed inflation to be reduced in remarkable fashion from 56.5 per cent in 1995 to 2.9 per cent in 1999. In 2000, the inflation rate rose to 12.7 per cent as a result of the economic disruption caused by the serious flooding and then settled at 9 per cent in 2001.

Despite a tight monetary policy in 2002 that reduced money supply to 20 per cent after 30 per cent in 2001, inflation rose again to 16.9 per cent under the impact of the drought in southern Africa which pushed up the prices of certain agricultural products. The rise in the price of imported oil at the end of 2002 and the beginning of 2003, coupled with the recent appreciation of the South African rand, contributed to maintaining inflation at 12.7 per cent in 2003. Improved food supply as well as an expected depreciation of the rand should, however, reduce inflation to below 9 per cent in 2004 and 2005.

Growing export revenues and major financing packages provided by donors have contributed to the relative stability of the metical in relation to the dollar. The Mozambican currency stayed virtually stable in relation to the dollar in 2003 and only depreciated by 2.3 per cent in 2002 compared with 36 per cent in 2001 and 50 per cent in 2000. The stability of the metical in relation to the dollar over the past year attracted bank deposits in Mozambican currency, which grew by 23 per cent in 2003 compared with growth of not more than 10 per cent for deposits in foreign currencies. The Mozambican banking sector remains nevertheless heavily dollarised since more than 50 per cent of deposits are denominated in foreign currencies.

The banking sector is very concentrated and is characterised by a very high interest margin. Whereas borrowing rates were at 32 per cent in June 2003, credit rates stood at around 12 per cent. The banks are nevertheless wary about lending. They have incurred a high level of bad debt and major reforms are due to be decided to improve the situation, including, notably, a reform of the land law aimed at simplifying inheritance procedures and property rights.

Entrepreneurs' difficulties in obtaining loans are due to the banks' demands for excessive guarantees.

### External Position

The considerable efforts made by the government over these last ten years have given Mozambique an open and liberal commercial regime compared to those of its southern African neighbours. More particularly, import licences have been abolished and the structure of customs tariffs simplified. In 1999, the government approved the trade agreements concluded by the southern African countries and Mozambique belongs to the Southern Africa Development Community (SADC). The aim of the protocol is to develop duty-free trading within the southern African community, thus creating an economic space of more than 200 million inhabitants. Under the terms of these agreements, the authorities have reduced the top tariff rate from 30 to 25 per cent. They have indicated that they want to reduce the top tariff rate to 20 per cent in 2006. They do not intend, however, in the near future to abolish the export tax on non-processed cashew nuts and the sugar surcharge. This decision reflects the authorities' concern that protection for both the cashew


© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule • AfDB



nut processing industry and the sugar industry should be maintained.

The principal destinations for Mozambican exports in 2002 were Belgium (23 per cent), South Africa (9.1 per cent) and Germany (6.2 per cent). Imported goods in 2002 came principally from South Africa (27.5 per cent), France (8.9 per cent), the United States (7 per cent), Australia (6.9 per cent), Japan (6 per cent) and Malaysia (4 per cent). Imports consist essentially of machines and capital equipment, vehicles, metal products and textiles.

Following construction of the Mozal aluminium plant, the composition of the country's exports, which had been dominated during the last two decades by fisheries and traditional agricultural products (cotton and cashew nuts), has changed. Aluminium has become the principle export product since 2001 and represents more than half of export receipts, followed by electricity. Exports of this latter resource should increase over the coming years following the signing of a new power export agreement between South Africa and Mozambique, which should help to increase the sale price of the electrical energy produced by the latter. The sale of prawns now lies only in third place among exports.

In 2002, the external position of Mozambique deteriorated considerably under the impact of a strong increase in imports of capital equipment for the realisation of major foreign investment projects such as Mozal II and construction of the Sasol gas pipeline. On the other hand, net service imports returned to normal in 2002 after being taken to a peak in 2001 by major construction projects. Globally, the current account balance showed a deficit equivalent to 11.6 per cent of GDP in 2002, compared to 14.5 per cent in 2001.

The trade deficit was reduced to 14.9 per cent in 2003 by the dynamism of timber, aluminium and electricity exports. The deficit is projected to narrow further to reach 8.6 per cent of GDP in 2004 and 7.7 per cent in 2005. Exports should remain at a high level following the coming on stream of the second tranche of the Mozal aluminium smelter as well as the start of gas exports to South Africa. Completion of these two projects should also lead to a reduction in capital equipment imports.



Direct foreign investment is an important element in Mozambique's growth. Net inflows increased in 2003. In 2002, they represented 406 million dollars against $255 million in 2001. The abundance of natural resources, highly attractive tax incentives and political stability explain the massive flow of direct foreign investment into Mozambique. According to the Centre for the Promotion of Investment, the bulk of investment is currently being directed into the industrial and tourist sectors. There are nevertheless restrictions on the flow of foreign capital. Investors cannot repatriate loan repayments, dividends or capital representing more than $5 000 unless they have an authorisation from the competent authorities.

The support of the international community remains very important for the pursuit of the country's development. To date, external financing and donor confidence has been based on continuing implementation

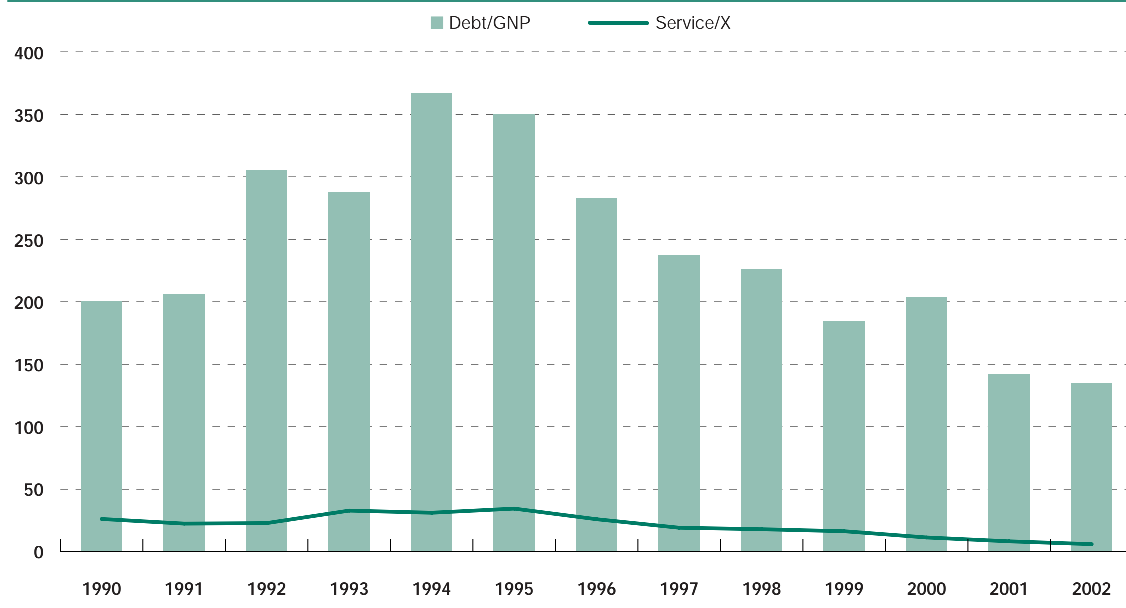
Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -23.6 | -21.7 | -10.5 | -16.1 | -14.9 | -8.6 | -7.7 |
| Exports of goods (f.o.b.) | 7.4 | 9.9 | 20.5 | 18.9 | 21.4 | 22.9 | 22.9 |
| Imports of goods (f.o.b.) | -31 | -31.6 | -31 | -35.1 | -36.4 | -31.5 | -30.6 |
| Services | -5.3 | -6.6 | -17.6 | -7.3 | | | |
| Factor income[a] | ... | ... | ... | ... | | | |
| Current transfers | 14.5 | 15.3 | 13.7 | 11.8 | | | |
| **Current account balance** | **-14.4** | **-13** | **-14.5** | **-11.6** | | | |

a. Factor income is included in services.
**Source:** Domestic authorities' data; projections based on authors' calculations.

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** World Bank.



of major economic reform programmes. Mozambique had a very high external debt, which reached 367 per cent of GDP in 1994 before being reduced to 135 per cent of GDP in 2002 following relief granted under the Highly Indebted Poor Country (HIPC) initiative. Initially, in June 1999, Mozambique's debt was reduced by $3.7 billion. Since, Mozambique has benefited from an additional reduction under the HIPC initiative, for which it reached the completion point in September 2001. The results achieved by the authorities opened the way to a new reduction by the Club of Paris on 17 November 2001, taking the total for the year to around $482 million.

## Structural Issues

Mozambique has implemented ambitious structural reforms. The government has embarked, notably, on a vast privatisation programme since the start of the 1990s. In addition, liberalisation of the economy has been pursued in the telecommunications, port services and rail sectors. The government has also concentrated its efforts on reform of the financial sector and the removal of obstacles to private sector development.

The low level of urban population – about a quarter of the total population – limits access to commercial energy sources. The population uses wood or coal as an energy source. In 2001, the production of biomass represented 6.785 million tonnes of oil equivalent, which is to say 85 per cent of available energy supply.

Efforts are being made to make different energy sources accessible to the population. Discussions opened between the government and private sector are based on the need to increase commercial energy consumption in the years to come. Only 6 per cent of the population has access to electricity at the moment, while the rest remain dependent on biomass.

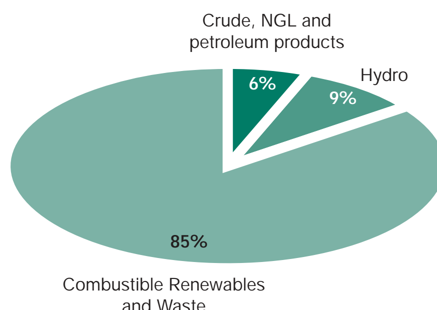
The electricity generating sector plays an important role in Mozambique. The country's installed production capacity is 2 384 MW and virtually all output is hydroelectric, most of it generated by the Hidroelectrica Cahora Bassa dam (HCB), owned 82 per cent and 18 per cent by Portugal and Mozambique respectively. More than 90 per cent of the electricity produced by the dam is exported and the remainder, which is used for local consumption, is distributed by the public sector company, Electricidade de Moçambique (EDM).



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

Figure 6 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

Electricity is principally consumed by industry (87 per cent), followed by households (9 per cent) and shops and public services (4 per cent).

Despite the efforts made to reach the objective of giving the whole population access to electricity, Mozambique's basic energy infrastructures remain fragile. To remedy the situation, the province of Inhambane was connected to the national electricity grid in 2002, bringing it 110KWh of high tension electricity supply. The government plans to build a new connection to enable the provinces of Lichnga and Pemba to be served by the national transmission network by the end of 2004.

The South African Power Pool (SAPP) was set up in 1995 with the objective of connecting the national networks of SADC to form a single electricity distribution network. Mozambique is already connected to South Africa and Zimbabwe, to which it supplies electricity from the Cahora Bassa dam. About 60 per cent of the electricity produced by HCB is sold to the South African Electricity Supply Commission (ESKOM) and 29 per cent to the Zimbabwean Electricity Supply Agency (ZESA). In October 2002, HCB stopped supplying ESKOM following a disagreement over prices. The dispute between HCB and ESKOM was resolved in 2003. The connection with Malawi should have been completed in 2002 but the date was put back to 2005. The project involves installing high tension cable over a distance of 220km and Mozambique wants to evaluate its environmental impact. The project is costly, moreover, at about $154 million. Mozambique has asked for the project to be considered for inclusion in the New Partnership for Africa's Development (NEPAD) programme.

The Mozambican government is also looking for investors for the construction in 2005 of a second hydroelectric power station on the River Zambesi with a capacity of 2 400 MW and at a cost of $1.3 billion.

The Moatize coal mine in the north west of the country was operated until 1977 by a South African company. Since the civil war, however, production has been at a standstill because of the absence of good transport links. A project to reopen the mine is underway, however, with the aim of achieving a production capacity of 3.3 million tonnes of coal for domestic use and steam powered machines.

The natural gas sector should become important in Mozambique since production is developing. Proven natural gas reserves represent 57 billion $m^3$. Ninety-seven per cent of production, which totalled 68 million $m^3$ in 2002, was used inside the country, mainly by power electricity generators. The 865km gas pipeline which links the province of Inhambane to Secunda in South Africa should lead to major development of the natural gas industry in southern Africa.

The privatisation programme started in 1989 with the approval of the first legislation, regulating the administrative procedures for the sale of state-owned enterprises, and the successive creation of a Technical Unit for Enterprise Restructuring (UTRE). Privatisation mainly concerned medium-and small-



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

sized enterprises acquired by Mozambican nationals. However, the process produced mixed results; while large companies purchased by foreign multinationals have performed well, smaller companies have encountered a series of difficulties owing to their weak capitalisation, inexperienced management and poor access to credit.

In 2002, 20 large enterprises – predominantly in the transport and communication sectors – and 200 small SMEs remained to be privatised. However, private sector participation for these companies has been sought through various means, including direct equity participation, private management contracts and government leases. One of the most recent and significant privatisations has been the 15-year Maputo Port management contract, awarded in April 2003 to the Maputo Port Development Company (MPDC). The consortium, composed of British, Swedish and Portuguese companies, owns 51 per cent, and the government and the public company, Caminhos de Ferro Moçambique (CFM), own the remaining 49 per cent. Owing to the strategic location of the port, and its proximity to Johannesburg, South Africa's industrial centre, the privatised Maputo Port has the potential to compete strongly with the key South African port of Durban, which has become congested and is affected by long delays in handling cargo.



Progress is also envisaged for the privatisation of the state telecommunication company, *Telecomunicações de Moçambique (TDM),* evidenced by the bill approved by parliament in April 2004, which calls for full liberalisation of the telecommunications market. A 1999 law opened the market to private initiative and, subsequently, a second mobile phone operator, the South African company Vodacom, set up a subsidiary in Mozambique, offering competition to M-Cel, which is owned entirely by TDM. The approval of the new bill introduces competition also in the fixed phone network, and the government has pledged to privatise the company in 2004, finding a "strategic partner" to take a majority stake in TDM.

With the assistance of the World Bank, the authorities are planning a series of other reforms, including: the privatisation of *PETROMOC,* the state-owned petroleum distributor, the concessioning of part of the railroad system and management contracts for water systems in the five largest cities, as well as encouraging private sector participation in electricity provision.

In 2003, the government carried out a reform to improve the state of the banking system. Under this reform, international accounting standards will be progressively adopted by the financial institutions. The government is also committed to applying the Basle agreements on bank supervision and surveillance. In this context, the central bank is planning to negotiate and sign a protocol of co-operation with the supervisory authorities in Portugal and South Africa.

These banking sector reforms also involve the restructuring of the *Banco Internatiçonal de Mozambique* (BIM), which suffers from a large share of non-performing loans, and the gradual development of a more competitive banking system. The dominant position of BIM and the high operating costs of banking institutions represent, indeed, major obstacles to the private sector in accessing credit. Other major difficulties associated with the poor credit market include the absence of efficient judicial procedures to facilitate loan recovery, and difficulties in obtaining and using collateral to access bank credit. The constitution prohibits the private ownership of land and the procedures to obtain land titles are complex and lengthy. As a first step towards reform of the land tenure system, the government commissioned a study in 2003 on land tenure regulations and procedures to analyse ways to encourage agricultural investment.

In addition to financial sector reform, the government has started a series of initiatives to simplify the complex regulations and procedures that affect the business environment. The commercial code is being revised in line with the codes of neighbouring countries. Moreover, the authorities intend to create a one–stop shop in order to ease the procedures of registering new companies in the country. Some initiatives have also been undertaken to simplify labour market regulations that entail high retrenchment costs and expensive and cumbersome procedures for hiring



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



expatriates. In order to overcome these rigidities, which exacerbate problems caused by the lack of skilled personnel in the economy, the authorities are amending labour legislation to simplify authorisation procedures. Furthermore, the Ministry of Labour is preparing a revised labour law that aims to reduce retrenchment costs to employers by broadening the coverage of the social security system.

## Political and Social Context

Since the peace agreements of 1992 put an end to 16 years of civil war, Mozambique has returned to political stability. The municipal elections held in November 2003 confirmed the country's political and social stability. These elections allowed opposition parties such as RENAMO to participate for the first time. Organised throughout the country, they were judged by foreign observers to have been "free and open". Unfortunately, abstention was very high. The results showed the ruling party, FRELIMO, victorious except in the municipal councils of Beira, the country's second biggest city, Nacala, the economic powerhouse of the North region, Mozambique Island, the country's first capital, and Angoche. Presidential elections will take place in 2004.

Despite the scale of the projects started by the Mozambican government, which has made the reduction of poverty one of its priorities, the country is characterised by a high level of absolute poverty. The government's adoption of the Plan for the Reduction of Absolute Poverty (PARPA) for the period 2000-2004 then 2001-2005 shows the country's determination to fight poverty, with particular emphasis on education, health and rural development. The PARPA aimed to reduce the rate of poverty from 70 per cent in 1997 to 60 per cent in 2005 and 50 per cent in 2010, setting a series of social objectives including: enhancing primary school enrolment, expanding primary health care, improving mother/child health, and combating major economic problems. Thanks to rapid growth and increased spending in the social sector and on infrastructure, poverty levels seem to have been reduced over the past five years. In particular, preliminary results of a 2002/03 household survey indicate that the national rate of poverty has decreased to 54 per cent in 2002/03, compared to 69 per cent in 1997. However, this positive achievement masks significant regional variations. Incidence seems to have fallen dramatically in the centre, especially in the Tete and Sofala provinces, where poverty has fallen from above 80 per cent to 60 per cent and 36 per cent respectively. However, the province of Inhambane in the south continues to exhibit a poverty rate above 80 per cent.

In the field of health, the statistics remain alarming. Life expectancy was estimated to be 41.5 in 2002 for the population as a whole. Fifty-five per cent of the population was affected by malnutrition in 2001. Social indicators show that the most deprived people are concentrated in the rural areas where health services are practically non-existent. Nevertheless, the first progress report on the implementation of the PARPA, issued by the authorities in 2003, indicates some improvements have been made in attended births, maternal and infant mortality rates, and vaccination coverage. It should be noted, however, that progress was mainly concentrated in urban areas. The infant mortality rate was 125.5 per 1 000 live births in 2002 but 198.9 children in every 1 000 did not reach the age of five even though almost all (92 per cent) had been given the principal vaccines. The number of births in maternity facilities was 41 per cent in 2001 but, in the rural areas in particular, many woman give birth without medical assistance, resulting in high infant and mother mortality rates. To combat this problem, the government set itself the target of mobilising the rural communities via its prevention campaigns, as prescribed by the PARPA.

The rate of prevalence of HIV/AIDS among adults averaged 11.7 per cent in 2001 and 14.7 per cent for women alone. Eighty thousand children between the ages of 0 and 14 were estimated to be carriers of the disease and the number of children left orphans by AIDS was 420 000 in 2001. The same year, 433 people per 100 000 suffered from tuberculosis and many others faced death from malaria and hepatitis B. The government set the objective of preventing and reducing the impact of AIDS through education and information campaigns. In this context, several policies have been put into practice. In

OECD Browse_it Edition • For Read Only • Lecture seule

particular, six counselling and test centres were opened in 2001 and 18 in 2002. This policy enabled 21 766 people to be received for voluntary tests between January and September 2002 and the objective in the PARPA of achieving 24 000 tests in the year was exceeded. In 2003, the campaign has been intensified but, in addition to prevention, the government has tried to improve treatment infrastructures to cope with the increasing number of declared cases.

In the field of education, the government is concentrating its efforts on the principle of the universal primary school and access to school for all. In 2002, overall literacy stood at only 46.5 per cent, and only reached 31.4 among females.

According to the progress report on the PARPA, implementation access to primary education has improved, with the gross enrolment rate in EP1 (primary grades 1-5) rising from 70 per cent in 1998 to 104 in 2002, 2 percentage points above the target established by the poverty strategy. In tandem with improved enrolment, the proportion of girl students in EP1 improved during 1995-2001, rising from 41.8 per cent in 1995 to 43.9 per cent in 2001, broadly in line with the PARPA target of 44 per cent.

In 2002, about 275 new schools were opened in Zambezia, Gaza and Inhambane. Apart from the construction of new buildings, 956 new teachers completed their training in 2001. As for the quality of education, the government has instituted several policies to improve access to educational infrastructures and respond to the increase in demand for education at all levels.





© AfDB/OECD 2004

# Nigeria

**key figures**

| | |
|---|---|
| • Land area, thousands of km² | 924 |
| • Population, thousands (2002) | 120 911 |
| • GDP per capita, $ (2002) | 366 |
| • Life expectancy (2000-2005) | 51.5 |
| • Illiteracy rate (2002) | 33.3 |

An OECD Browse_it Edition • Lecture s...
Read Only

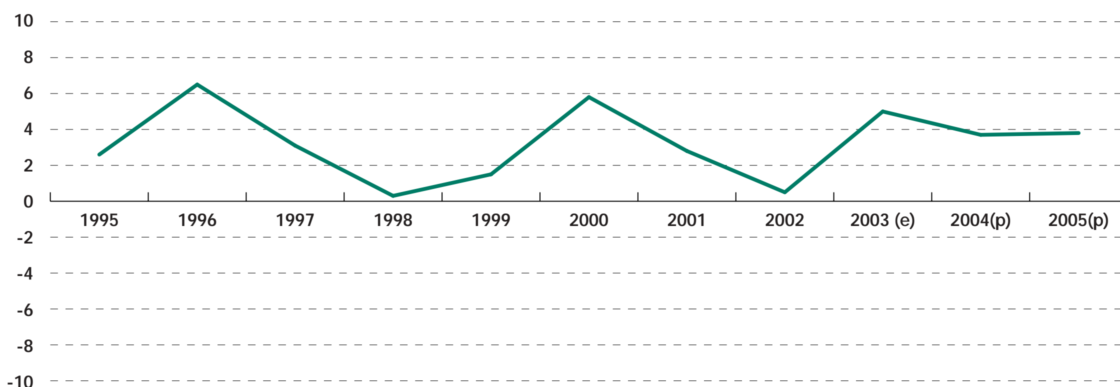
# Nigeria

NIGERIA'S HEAVY DEPENDENCE on the oil sector and the recent uncertainty in the international oil market have brought mixed economic results. In 2002, the weakening international oil price and a subsequent revenue shortfall culminated in relatively low real GDP growth, deterioration in the fiscal account and pressure on external payments, resulting in a debt crisis. Generous supply by monetary authorities to the government led to excess liquidity in the economy that contributed to rising inflation and demand pressure in the foreign exchange market. The upturn in the oil market in 2003 brought about the anticipated upswing in real GDP growth, which rose to 5 per cent. Also, a better fiscal position and lower external pressure, with Nigeria resuming regular payments of its external debt, were observed in 2003. The economy's performance will revert to lower levels, with a projected GDP growth at 3.7 per cent in 2004 and at 3.8 per cent in 2005, as a result of low exports and insufficient investment. Nigeria's uncertain macroeconomic performance also stems from its persistent structural bottlenecks, which the government has tried to remove by deregulation and privatisation. Whilst the oil products market was deregulated in 2003, privatisation is progressing slowly. The highly important energy sector is marked by inadequacies and inefficiencies. The lack of a coherent national energy policy has made the supply of oil and gas inefficient, as revealed by the fact that about 72 per cent of gas associated with crude oil production in Nigeria is flared. The supply of electricity has also been unreliable. Politically, Nigeria achieved a major political feat in 2003 with successful elections marking the first civilian-to-civilian transfer of political power in the country's history. However, governance problems continue and have contributed to pervasive poverty in the country. As a result, poverty is entrenched, and the key health and education services have failed to improve significantly over the years in spite of increased budgetary allocations.

Nigeria faces persistent structural bottlenecks, which the government has tried to remove by deregulation and privatisation.



Figure 1 - **Real GDP Growth**



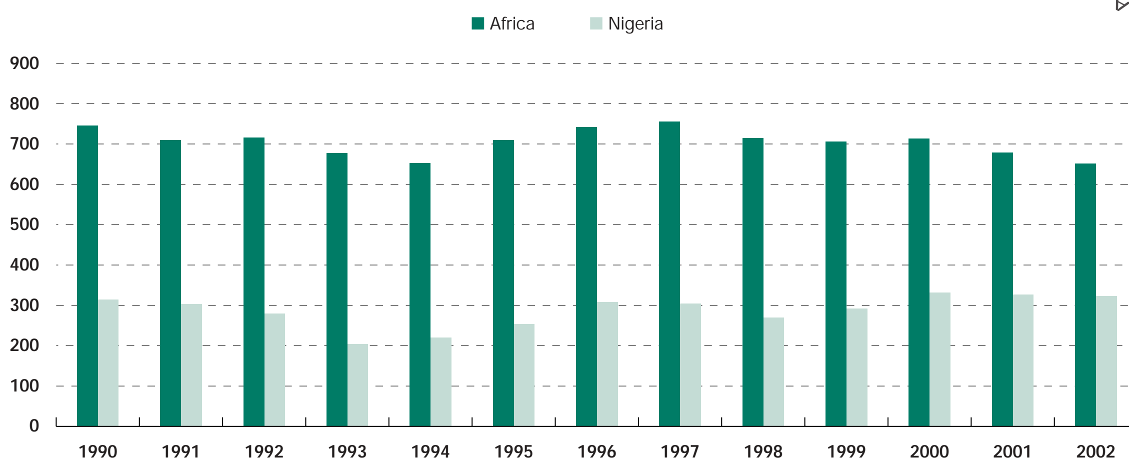

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

## Recent Economic Developments

The Nigerian economy continues to demonstrate mixed performances marked by macroeconomic imbalances. While the economy weakened in 2002, some economic fundamentals improved. The rate of real GDP growth slowed dramatically from the revised 4.2 per cent in 2001 to less than 1 per cent in 2002. Growth performance, however, rebounded in 2003 to an estimated 5 per cent and is projected at 3.7 per cent in 2004 and 3.8 per cent in 2005.

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

In 2002, low economic growth was attributed to the significant fall of crude oil production. In 2003, both an increase in the volume of crude oil exported and a 16 per cent increase in oil prices helped boost economic activity. In 2004 and 2005, low exports are expected to constrain an upswing in investment to levels that would boost growth.



In 2002 the performance of all sectors apart from crude oil improved relative to the preceding year. Agricultural output increased by 4.2 per cent in 2002 compared with 3.7 per cent in 2001. Crop production in particular was strong in 2002, with the output of food staples rising by 4.2 per cent after a 3.5 per cent increase in 2001. The output of potatoes, beans and yam, for example, increased by 9.5 per cent, 8.4 per cent and 5 per cent respectively, while output of sorghum and maize increased by 3 per cent and nearly 2 per cent respectively. Cash crop production also improved, rising by 2.2 per cent compared with 0.5 per cent in 2001. The rise in output was derived from favourable weather conditions, rainfall having been timely, adequate and well distributed throughout the country. The government's renewed active support for the sector also benefited production, especially in 2003, when its new agricultural policy encouraged the private sector to invest in agriculture. In that year, output was also helped by the adoption of new strategies of credit delivery, particularly the Trust Fund Model, which included the Micro Credit Scheme for Agricultural Development (MICSAD) of the Shell Petroleum Development Corporation, the Green Card of the Nigerian Agip Oil Company, and the Jigawa State Trust Fund for Agricultural Development. Weather conditions in 2003 remained favourable for agricultural production and livestock. Such improvements will, however, stagnate unless Nigeria finds solutions to some of the perennial problems confronting agricultural production, such as inadequate supply of fertiliser. Locally produced fertiliser remains virtually non-existent as a result of the continued shutdown of the National Fertilizer Company of Nigeria (NAFCO), which accounts for over 85 per cent of total local production.

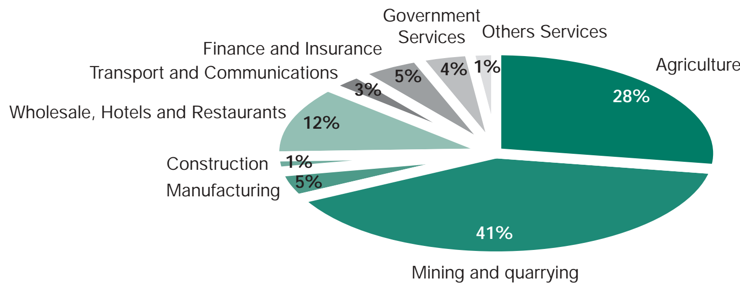
Industrial production in 2002 fell marginally by 0.1 per cent, compared with the 3.3 per cent increase in 2001. The sector appears to be recovering slowly in 2003, with production in the third quarter of the year increasing by 1.5 per cent since the corresponding quarter in 2002. The slight decline in industrial production in 2002 was attributable to the 7.8 per cent fall in crude oil production, offsetting the respective increases in manufacturing and electricity of 3 and 1.5 per cent. The reasons for the manufacturing activity increase included the policy of physically inspecting all imported goods at the ports. This compelled importers to pay duties, which in turn improved the competitiveness of local manufacturers. Furthermore, enhanced surveillance by the National Agency for Food, Drug Administration



© AfDB/OECD 2004

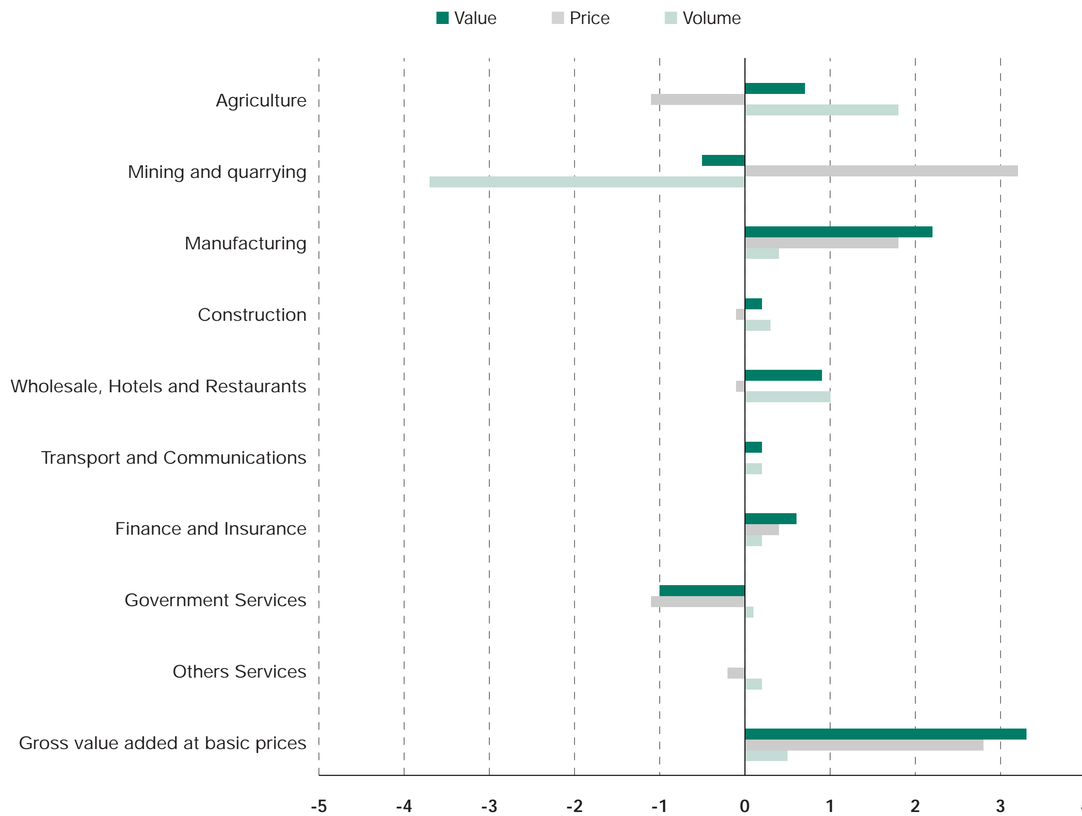
OECD Browse_it Edition • Lecture seule • An OECD Read Only

Figure 3 - **GDP by Sector in 2002**




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

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**




**Source:** Authors' estimates based on IMF data.

and Control assisted in curtailing the influx of substandard goods. Increased availability also of electricity contributed to improved manufacturing output. The improvement in electricity output was largely due to the restoration of generating equipment, as well as the higher use of existing capacity.

In 2003, the government has continued to attempt to prop up local industrial activity through outright bans on competing imports. Following a ban on rice and poultry products in 2002, the government in 2003 placed a ban on imports of textiles, drugs and other pharmaceutical products, as well as some food products competing with the local food processing industries. Nigeria contentiously argues that these measures are justified by WTO provisions that, under certain circumstances, allow such bans for a period of up to five years.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

The downturn in oil production had significant effects for the industrial sector in both 2002 and 2003. Crude oil production declined by 7.8 per cent in 2002, mainly due to OPEC's cut of Nigeria's production quota to 1.787 mbd, according to official sources. However, independent observers measured actual production in 2002 at about 1.94 mbd, substantially above the quota. In early 2003 production was estimated at 2 mbd, consistent with the quota for February. However, following the communal crisis in the Niger Delta area, especially in Warri, oil output took a downward slide. In March 2003, oil multinationals had shut down practically all their operations in the western delta, with a total production loss of nearly 40 per cent at the height of the violence. Thereafter, oil output increased gradually, reaching 1.98 mbd in May as a result of government interventions directed at ending the crisis. Since July 2003 output has been estimated at 2.2 mbd, although some disturbances and resulting closures of production facilities in the Niger Delta area have continued.



The services sector maintained a growth rate of 4.8 per cent in 2002, the same as in the previous year. Distributive trade (wholesale and retail), the largest contributor to the services sector, grew by 3.5 per cent in 2002, accounting for 12 per cent of total GDP. Transport and communications expanded by a significant 2.5 per cent in 2002 and accounted for 2.5 per cent of total GDP. In 2002, major developments took place in the construction and telecommunications sub-sectors. Reconstruction work at the Lagos port complex and work on flood control and restoration of the stacking areas of the Ijora lilly-pond progressed significantly. In telecommunications, the total number of telephone lines of the incumbent operator NITEL increased by 20.3 per cent, from 767 862 in 2001 to 932 424 in 2002. Deregulation in the sub-sector has improved communication services. Since the introduction of GSM technology in 2001, the two private operators, MTN and ECONET, have increased telephone lines from 300 000 in 2001 to 1 660 000 in 2002. In 2003 a further private operator, GLOBACOM, entered the telecommunications market with its mobile service glo-mobile.

The data for demand composition of GDP show that the government's share in economic activity (both consumption and investment), which increased in 2001 and 2002, subsided in 2003. More importantly, for the first time in several years, gross capital formation exceeded 20 per cent of GDP in 2003 and is expected to remain above 20 per cent in the foreseeable future. This resulted from a very strong increase in private investment, demonstrating renewed private sector confidence following Nigeria's democratisation.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **16.2** | **21.5** | **15.9** | **18.5** | **22.3** | **22.0** | **22.9** |
| Public | 5.5 | 7.8 | 9.2 | 13.5 | 10.7 | 10.4 | 10.8 |
| Private | 10.7 | 13.8 | 6.7 | 5.0 | 11.6 | 11.6 | 12.2 |
| **Consumption** | **82.3** | **81.0** | **63.4** | **73.9** | **79.2** | **73.5** | **74.3** |
| Public | 9.8 | 18.5 | 22.5 | 29.5 | 26.2 | 23.4 | 23.2 |
| Private | 72.5 | 62.4 | 40.9 | 44.4 | 53.0 | 50.1 | 51.1 |
| **External Sector** | **1.6** | **-2.5** | **20.7** | **7.7** | **-1.5** | **4.5** | **2.8** |
| Exports | 43.5 | 37.9 | 58.7 | 47.8 | 43.9 | 48.3 | 47.5 |
| Imports | -42.0 | -40.4 | -38.0 | -40.1 | -45.3 | -43.8 | -44.7 |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Fiscal policy has remained expansionary and continues to be shaped by developments in the oil sector, rendering the fiscal situation fragile. In 2002 the government widened the fiscal deficit to the equivalent to 5.7 per



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



cent of GDP compared with 3.3 per cent GDP in the preceding year. In 2003 government expenditure remained large, with a 1 trillion *naira* ($7.6 billion) budget. The overall deficit, however, contracted to an estimated 3.1 per cent of GDP thanks to marginal increases in revenue. The deficit ought to remain stable in 2004 and is expected to marginally contract in 2005.

The fragile fiscal situation has resulted mainly from Nigeria's inability to adapt to fiscal federalism, making the control of expenditures difficult. In addition international oil price volatility has made it difficult to maintain fiscal discipline. In 2002, high government expenditure was based on overly optimistic expectations regarding revenues, particularly in regard to oil prices. Total federal revenue fell by about 22.4 per cent from 2001 levels, as reflected in both oil and non-oil revenue. Receipts from the oil sector declined by 27.9 per cent, due to reduced export volumes, and revenue from non-oil sources declined by 4.4 per cent. Non-oil revenue had been overestimated in two regards. First, privatisation brought less revenue than expected, with the government failing to privatise NITEL to raise an anticipated $1.3 billion. Second, the anticipated recovery of $1.2 billion that former president Abacha and his family had stashed away in foreign banks did not materialise. On the expenditure side, personnel costs rose significantly as a result of an oversized civil service and related pension costs. Capital expenditure, on the other hand, declined by 26.7 per cent below its 2001 level.

The government's budget in 2003 was prudently based on anticipated revenue, with crude oil price estimated below their high point at the beginning of the year. However, by the third quarter of 2003 a shortfall in revenue, due to mishaps in crude oil production during the first half of the year, forced the government to rely on the excess crude oil reserve account at the CBN. Nevertheless, the revenue situation in 2003 improved as the oil production increase late in the year was met by a higher international price. Government expenditure remained large in 2003. Along with increased expenditure to complete existing infrastructure projects – principally in the provision of water and power, the maintenance and construction of roads and the improvement of infrastructure in the federal capital territory – the government found it necessary to spend more on national security, given the increase in ethnic and religious violence during recent years. Furthermore, the organisation of prestigious events, including the All-African Games and the Commonwealth Heads of Government Meeting held in December 2003, contributed to high expenditure. The All-African Games necessitated a new sports stadium, estimated to cost $472 million, which was more than the 2003 budget estimate for either health or education.



The principal objective of Nigerian monetary policy remains maintaining price and exchange rate stability. The main policy thrusts have been *i)* the reduction of excess liquidity in the banking system; *ii)* the achievement of single-digit inflation; *iii)* the

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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[a] | **22.5** | **44.5** | **46.4** | **39.5** | **39.8** | **39.7** | **39.5** |
| Tax Revenue | 9.2 | 14.7 | 18.1 | 14.9 | 15.5 | 15.5 | 15.5 |
| Oil Revenue | 2.9 | 7.7 | 8.5 | 6.0 | 6.8 | 6.6 | 6.6 |
| **Total expenditure and net lending**[a] | **18.3** | **38.1** | **49.7** | **45.2** | **42.9** | **42.9** | **42.2** |
| Current Expenditure | 7.6 | 15.2 | 15.5 | 16.7 | 14.4 | 14.4 | 14.0 |
| *Excluding interest* | *3.9* | *8.7* | *9.4* | *9.8* | *8.8* | *8.7* | *8.6* |
| Wages and salaries | 1.6 | 6.4 | 5.9 | 7.2 | 6.2 | 6.0 | 5.8 |
| Interest | 3.7 | 6.4 | 6.0 | 6.9 | 5.6 | 5.6 | 5.4 |
| Capital expenditure | 5.3 | 11.6 | 16.6 | 13.0 | 12.6 | 13.0 | 13.0 |
| **Primary balance** | **7.8** | **12.8** | **2.8** | **1.2** | **2.5** | **2.5** | **2.7** |
| **Overall balance** | **4.2** | **6.4** | **-3.3** | **-5.7** | **-3.1** | **-3.2** | **-2.7** |

a. Only major items are reported.
**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

OECD Browse_it Edition • Read Only • Lecture seule

maintenance of exchange rate stability; *iv)* the sustenance of a market-based interest rate regime; and *v)* the maintenance of financial sector stability. The Central Bank of Nigeria (CBN) uses market-based techniques for liquidity management, with Open Market Operations as the primary instrument, complemented by the Cash Reserve Requirement. In 2002 the CBN adopted a medium-term monetary policy framework, covering 2002 and 2003, in recognition of the time lag between the implementation and the effects of a particular policy. The CBN aimed at 15 per cent growth in broad money supply and a 9 per cent rate of inflation. Monetary policy has faced considerable challenges, notably persisting excess liquidity and intense demand pressure in the foreign exchange market. In 2002 and 2003 monetary growth was excessive, largely due to monetary financing of the fiscal deficit. Broad money supply (M2) rose by 21.5 per cent in 2002, and by September 2003, M2 had expanded by a further 24.2 per cent. The objective of attaining single-digit inflation remains elusive. The average rate of inflation ended 2002 at 12.9 per cent, which, though representing a decline on the previous year's 18.9 per cent, remained above the CBN target. In 2003, good harvests dampened food prices, keeping inflation moderate. At the end of December 2003, the annual inflation rate was estimated at 10.7 per cent. It is projected to fall to 6.8 per cent in 2004 and 6.4 per cent in 2005, following subdued economic activity and good food harvests in both years.



The CBN maintains a market-based interest rate regime whereby it proactively adjusts the Minimum Rediscount Rate (MRR) to align interest rate movements with market conditions. In 2002, the MRR was twice adjusted downwards, from 20.5 per cent in January to 18.5 per cent in July and 16.5 per cent in December. The rationale was to respond to falling inflation and boost private sector investment. The MRR was further adjusted downwards to 15.0 per cent in August 2003. These reductions, coupled with excess money supply in the financial market, have allowed interest rates to fall. The Treasury Bill (NTB) issue rate, which stood at 20.5 per cent at the end of 2001, declined to 13.8 per cent in December 2002. It rose to 16.75 per cent in August 2003, prior to the downward revision of the MRR, and has remained stable since. Similarly, commercial banks average deposit and lending rates generally declined in 2002 and remained stable in 2003.

On the foreign exchange market, Nigeria has maintained its system of four exchange rates, namely: the Inter-Bank Foreign Exchange Market (IFEM) used for CBN transactions; the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX) quoted by a group of commercial banks; the bureaux de change rate; and the parallel market rate. In order to realign the *naira* exchange rate and stem the depletion of external reserves, the CBN reintroduced the Dutch Auction System (DAS) in July 2002 to replace the IFEM. Further, the government gave bureaux operators access to IFEM funds. This policy has made the exchange rate of the *naira* more market-determined. However, the segmented nature of the foreign exchange market continues to cause problems of cumbersome administrative procedures and documentation. The exchange rate of the *naira* has remained under pressure since 2002. The *naira* depreciated at the IFEM by about 13 per cent against the US dollar in 2002 and by a further 3 per cent by October 2003, caused mainly by the excessive spending of the government. As a result of the economy's heavy dependence on imports, any increase in spending tends to create demand for foreign currency. The *naira*'s depreciation, however, helped to narrow the differential between the official and parallel rates from 20 per cent in October 2001 to 10 per cent in October 2003.

### External Position

Nigeria aims to liberalise trade. However, it is frequently accused of not fully complying with WTO obligations, particularly those requiring more transparent rules and regulations. Currently there are at least seven trade taxes, with customs duties of up to100 per cent.

Nigeria's external payments are extremely dependent on oil revenues and have remained under pressure since 2002 as a result of adverse external shocks, particularly the reduction of the country's crude oil production and the external debt service burden. This led to a reduction in external reserves and a deferment of scheduled debt service obligations. Largely spurred by a fall in the trade

 © AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule • An



surplus, the 2001 current account surplus of 5.6 per cent of GDP was reduced to 0.2 per cent in 2002. An improved trade account in 2003 probably helped the current account deficit to catch up with the 2001 level. Lower exports and higher imports are, however, expected to reverse this improvement in 2004, but the outlook for 2005 is better.

A sharp reduction in exports in 2002 reduced the trade surplus. This reduction was caused by a drop in crude oil exports from 674.9 million barrels in 2001 to 545.1 million barrels in 2002. The share of non-oil exports increased remarkably, from 1.4 per cent in 2001 to 5.1 per cent in 2002, reaching their highest level in a decade thanks to rising world prices of Nigeria's scheduled export commodities, especially cocoa and palm oil. In 2003, exports rose sharply, due to an increase in crude oil prices to an average of $28 per barrel.

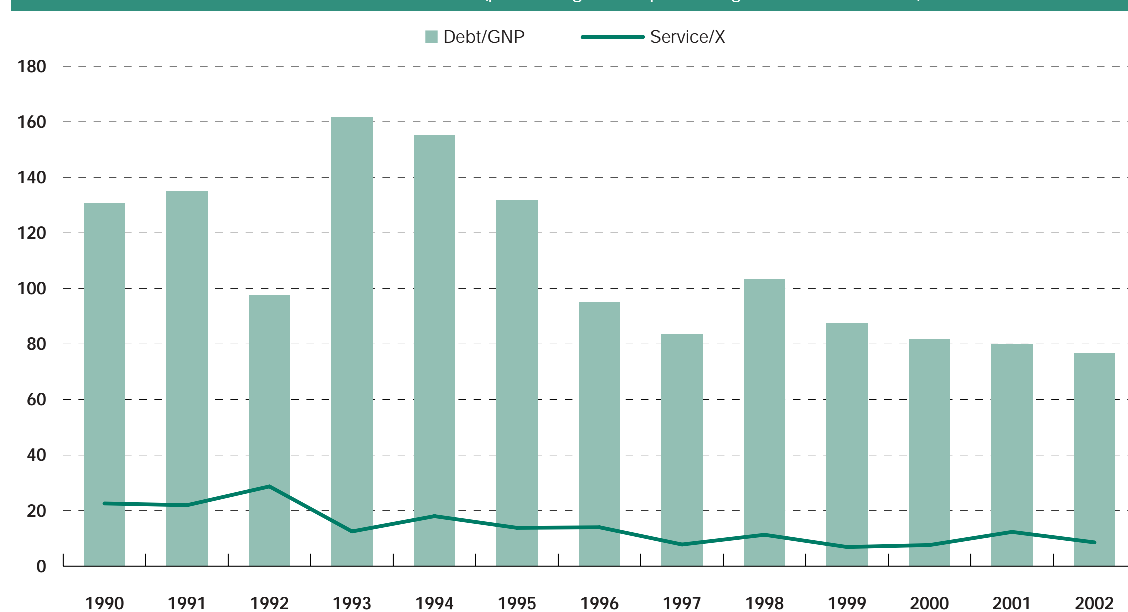
At the end of December 2002 Nigeria's external debt stock stood at $29.8 billion, 5.1 per cent higher than the preceding year due to the capitalisation of unpaid interest and charges on Paris Club debt. The Paris Club accounted for 81.2 per cent of total debt, while the London Club's claim represented 4.8 per cent. Since 1999, Nigeria has campaigned unsuccessfully for the cancellation of some of its bilateral foreign debt and

Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | 11.2 | 29.7 | 16.5 | 9.4 | 15.0 | 13.5 | 13.8 |
| Exports of goods (f.o.b.) | 41.7 | 56.7 | 45.8 | 41.2 | 45.8 | 44.9 | 45.0 |
| Imports of goods (f.o.b.) | -30.6 | -27.0 | -29.3 | -31.8 | -30.7 | -31.4 | -31.2 |
| Services | -10.5 | -18.1 | -6.9 | -5.3 | | | |
| Factor income | -7.9 | -9.3 | -7.1 | -7.1 | | | |
| Current transfers | 2.6 | 3.7 | 3.1 | 3.2 | | | |
| **Current account balance** | **-4.6** | **6.0** | **5.6** | **0.2** | | | |

**Source:** IMF data; projections based on authors' calculations.

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




**Source:** World Bank.

OECD Browse_it Edition • Read Only • Lecture seule

in 2002 the country faced a debt crisis. Scheduled repayments were estimated at $3.3 billion, but the country's budget for the year earmarked only $1.7 billion for debt servicing.

Following the sharp fall in oil revenue, as well as the 20 per cent fall in external reserves between December 2001 and August 2002, Nigeria suspended some of its debt payments. Since then, however, it has made significant progress, with the government indicating in July 2003 that it had been making prompt payments. Nigeria's debt management office (DMO) indicated in 2003 that multilateral debt had been fully repaid without arrears, and that it is regularly servicing all commercial instruments.

## Structural Issues

Nigeria continues to pursue reforms, deregulation and reorganisation to remove the persistent structural bottlenecks that hamper economic recovery and growth. The government made what is considered by many as its most significant reform by deregulating the oil products prices in November 2003.

Energy plays a critical role in Nigeria, which is rich in energy resources and is currently Africa's largest producer and exporter of petroleum and gas. The country's major energy resources include crude petroleum and gas, as well as coal, bitumen, hydropower and fuel wood. In addition, solar energy is important, particularly in northern Nigeria. The petroleum and gas sub-sectors are intricately linked to the electricity sector as most power stations are based on gas thermal processes.

In spite of the critical role of the energy sector, energy policy has not been systematic. Further, there has been no statutory blueprint on the basis of which energy plans and programmes can be implemented. Efforts to fashion out a comprehensive energy policy in 1993 were curtailed. However, a draft policy document on energy policy was concluded in 2002.

Nigeria's energy supply faces a number of problems: *i)* the absence of an integrated national policy for the energy sector; *ii)* the existence of a multiplicity of energy related agencies whose roles are oftentimes uncoordinated; *iii)* the government's dual role as operator and regulator; *iv)* the weak legal and legislative framework; *v)* the lack of funds, due to reliance on government subsidies and a sub-optimal tariff system; *vi)* the social conflicts in oil producing areas such as the Niger Delta, and sabotage of energy facilities in different parts of the country; *vii)* the over-concentration on exploiting non-renewable energy resources at the expense of renewable sources, such as solar and hydro power; and *viii)* the poor record on corporate governance and associated high corruption levels in energy producing enterprises.

The Federal Government dominates the energy sector, the key institutions being the ministries for Mines and Power, Petroleum Resources, and, to some extent, the Forestry Department of the Ministry of Agriculture. Other special government agencies in the sector include the Energy Commission of Nigeria, the Nigerian National Petroleum Corporation (NNPC), the Nigeria Electric Power Authority (NEPA), the Nigerian Coal Corporation as well as a number of other energy research and development institutions. The Ministry of Science and Technology also provides inputs into energy policy formulation. Nigeria's energy sub-sectors have until recently operated as public enterprises. The oil and gas sub-sector is still largely state-controlled, with the NNPC, the major government investor, owning a large number of subsidiaries. Since the early 1980s, however, the Federal Government has made several efforts to deregulate the sector.

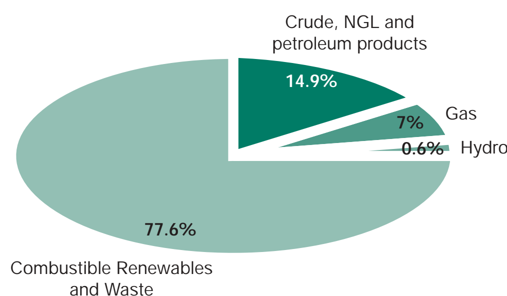
The petroleum and gas sub-sector sustains the Nigerian economy. Oil and gas reserves are currently conservatively estimated at 26 billion barrels and 157 billion cubic feet respectively. By the end of 2004 four giant deepwater fields - Borga, Erha, Agbami and Akpo – representing 6 billion barrels of additional oil reserves, will come on stream, bringing total oil reserves to 32 billion barrels. Crude oil production capacity currently stands at 2.6 million barrels per day and is expected to reach 3.3 million barrels by the end of 2004. Aiming to raise its crude oil reserves in October 2003, Nigeria opened bids for nine oil blocs in the Joint

 © AfDB/OECD 2004

OECD Browse_it Edition • An OECD Read Only • Lecture seule



Figure 6 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

Development Zone (JDZ) of the Gulf of Guinea. The JDZ is administered by Nigeria and São Tome and Principe, and the area opened for exploration is said to hold about 6 billion barrels of crude oil. Major oil companies including Shell, Chevron/Texaco, Total and ExxonMobil as well as indigenous firms are known to be in contention for the blocs.

The oil and gas sub-sector has become inefficient in recent years due to the absence of a coherent national energy policy, rendering it unable to satisfy the growing demand for energy. Government owned oil refineries have failed to supply refined petroleum products. Efforts to increase efficiency have concentrated on increasing the role of both foreign and local private sectors. In spite of strong opposition to privatisation, the government is determined to deregulate the downstream oil and gas sub-sector. In November 2003, the petroleum prices were deregulated when the government fuel-price regulator lifted the cap on petrol, diesel and kerosene prices and thus opened the market for competition. In the past, fuel subsidies have cost the government at least $1 billion a year and fostered corruption. The deregulation of the oil market ought to reduce graft and pave the way for sale of state refineries. However, the resulting freedom for marketeers to determine prices at retail outlets means that deregulation has occurred without an appropriate institutional anchor. In addition to the lack of refinery capacity, the downstream sector of the Nigerian oil and gas industry has suffered from the crisis in the Niger Delta (Nigeria's main oil producing zone), sabotage of oil facilities, environmental hazards, and poor management practices.

Institutions in the gas industry are also rather weak. It is estimated that every barrel of crude petroleum produced in Nigeria is associated with 1000 cubic feet of gas. For a considerable time, most of the gas produced in association with crude petroleum has been flared. Estimates indicate that during the period 1970-1979 about 97 per cent of associated gas produced was flared; for the period 1980-1989 the average flaring rate was 79 per cent, falling marginally to 72 per cent during the period 1990-2000. Regulations have imposed insufficient sanctions and incentives for key oil operators in respect of gas utilisation schemes. However, some oil operators, particularly Shell, have established gas plants that supply natural gas to factories for industrial use. The Nigerian Gas Company (NGC), which is a subsidiary of the NNPC, also supplies both domestic and industrial gas to consumers. In October 2003, the government and three of its joint venture oil partners – Conoco Phillips, Nigeria Agip Oil Company (NAOC) and Chevron/Texaco – took the final investment decision to execute the Brass LNG project. Contracts for parts of the project are due to be awarded in 2004, with the rest expected to be awarded by the first quarter of 2005. The Brass LNG project is one of three new liquefied natural gas projects being floated in a bid to end gas flaring and raise new revenues. In 1995, a review of the national gas policy required all operators to ensure that gas flaring was eliminated by 2005. At a later stage, this deadline was brought forward to 2004 in a mutual agreement between the Federal Government and the oil operators. However, studies carried out by some oil operators indicate that this target has only slim chances of success.

OECD Browse_it Edition • Read Only • Lecture seule

Nigeria's electricity supply is generated through a national power grid system by means of hydropower, gas turbines and steam processes. The electricity supply is controlled by the National Electric Power Authority (NEPA), a public monopoly accounting for about 98 per cent of total supply. The total generating capacity of Nigeria's existing power stations is estimated at 5 400 megawatts (MW). However, only 1 600 MW (29 per cent) of this is actually being generated. Electricity supply has been unreliable, leading to high production costs for companies, which are forced to procure and run their own power generating facilities. Average households and small businesses have their own standby electricity generating sets.

Since 2000, the Federal Government has been working to rehabilitate the electricity system. It has emphasised the expansion of rural electrification as part of its programme to enhance efficiency in the informal sector and alleviate poverty. The following measures are being pursued: *a)* rehabilitating and maintaining existing power stations to ensure that installed effective capacity of 5 400 MW is actually available for distribution; *b)* constructing additional power stations; *c)* encouraging independent power producers (IPPs); *d)* sourcing for funds from different avenues, including technical assistance under the Lome IV programme; and *e)* deregulating the power supply industry. Although these measures have had some success, frequent power surges and occasional total system collapses have continued. As a prelude to eventual privatisation NEPA has now been split into 18 subsidiaries in electricity generation and distribution, with changes expected to come into full force during 2004. Discussions on independent power producers (IPPs), which some state governments had promoted as a method to supplement NEPA's electricity supply, are yet to yield outcomes. The government has, however, continued to encourage foreign participation in order to make the electricity supply for both residential and industrial consumers more efficient. In October 2000, for instance, NEPA signed a partnership agreement with South Africa's ESKOM to help develop NEPA's repair capabilities, to execute transmission line projects, and to participate in the restoration, operation and transfer (ROT) schemes for Nigerian power stations. Similar schemes were established between Shell and NEPA for four Afam power plant units over a 15-year period and between NEPA and some Chinese firms.

In spite of these efforts to improve electricity generation, transmission and distribution, access to electricity supply in Nigeria remains very low – only 10 per cent of rural households and 40 per cent of the total population have access. NEPA aims to increase access to 85 per cent of the population by 2010. However, based on NEPA's record, it is safe to suggest that this will only be achieved with complete deregulation of the electricity sector and the privatisation of NEPA. In addition to reducing its role, the government must prepare the sector for deregulation, enabling small IPPs to enter the market, particularly at the rural community level.

Nigeria's coal resources are estimated at about 2.5 billion tons. The Nigerian Coal Corporation (NCC) is the statutory body responsible for the development of the coal sector and runs most of the existing coalmines. The Enugu mine, the country's largest, has a production capacity of 150 000 tons per annum. The share of coal in total commercial energy consumption is very small, the cement company NIGERCEM PLC being its only major commercial consumer. The country's major steel plants, particularly the Delta Steel Company, potentially large consumers of coal, have been in a state of neglect since the 1980s. The industry is gradually being privatised and, in order to further develop the sector, the government has signed its first production sharing agreement with Nordic Industries, a consortium of Danish, British and local firms.

Privatisation has been progressing slowly. In early 2002 some 117 public enterprises were on sale in sectors such as communications, energy, fertiliser, steel, transport, paper, sugar, cement, automobiles, finance, insurance and media. The programme was scheduled for completion by the end of 2003. In 2002 the government listed 24 enterprises for privatisation, but met with serious opposition, causing the Nigerian Senate to halt the privatisation of NEPA. The National Assembly followed suit in opposing the privatisation of key public enterprises such as the Nigeria National





© AfDB/OECD 2004

A OECD Browse_it Edition • Read Only • Lecture seule



Petroleum Corporation (NNPC), Nigeria Security Printing and Minting Company (NSPMC), Niger Dock, Sadiq Petroleum and Nigeria Telecom Limited (NITEL). By early 2003, the government had thus not made any major headway with the major public concerns such as NEPA, NITEL, and NNPC. However, it later announced the conclusion of a pre-agreement with Pentascope, a Dutch Company which will take over management of NITEL and prepare its eventual sale. The government's failure to sell the large enterprises raises questions about its commitment to the privatisation programme. Furthermore, there have been difficulties in finding buyers for these enterprises, as the cost of restructuring them and the volatile political environment have deterred foreign investors.

Financial sector liberalisation is progressing. The sector is now performing reasonably well although routine CBN examinations have revealed problems in some banks. In 2002 they discovered incidents of poor management, weak internal control systems, under-capitalisation, and inadequate collateral. Cases of fraud and forgery, of which 1 000 were unearthed in 2002, also continue to undermine the smooth operation of the financial sector. The CBN has continued its policy of free entry and exit into the banking system. In 2002 there was backlog of 21 private sector applications to set up new banks. There were also signs of inconsistency, as the CBN issued an operating license to one bank (Bond Bank Ltd.) while revoking that of another (Savanna Bank Plc.). A new mechanism for dispute resolution was introduced by the CBN in 2002. The CBN also initiated a private sector funded "life boat" facility for banks with temporary liquidity problems.

Major changes in capital markets have continued to bring improvements. The Nigerian Stock Exchange (NSE) has made progress in improving its market infrastructure. In 2003 it completed the upgrading of its trading, clearing and settlement systems. It has also commissioned its e-business platform. The modernisation of the market infrastructure has improved market performance. Total market capitalisation increased by about 15 per cent in 2002 and had risen by nearly 50 per cent by the third quarter of 2003. Also, the NSE All-Share index, which appreciated by about 10.7 per cent in 2002, had further gained about 35 per cent by the end of September 2003.

## Political and Social Context

In 2002, the prospective 2003 elections created a climate of political uncertainty, with violence and even political assassinations intensifying fear and casting doubt over whether the elections could be completed successfully. Indeed, since independence Nigeria had never successfully held a transition from one elected government to another. However, in a major political milestone, history was made in April 2003 when President Obasanjo was re-elected to a second term.

Nevertheless, governance problems continue. In particular, corruption continues to hold sway, with social, political and economic costs. According to the Transparency International Corruption Perceptions Index 2003, Nigeria is second only to Bangladesh in the list of countries perceived to be most corrupt. The commission to fight corruption, one of the first bodies set up by President Obasanjo after assuming power in 1999, has led to the conviction of just one public official. Significantly, the commission's investigation into the activities of the most influential politicians was met with staunch opposition from Parliament in 2002.

On the international stage, Nigeria's relations with neighbouring Cameroon now appear brighter. Relations between the two countries had stalled in late 2002 when Nigeria refused to hand over the disputed oil-rich Bakassi peninsula to Cameroon, in contravention of a ruling of the International Court of Justice in The Hague. During 2003 one village was handed over to start the process of redrawing the disputed border between the two countries. In early 2004, another 32 villages along the northeastern border were due to be exchanged. However, agreement has yet to be reached on the Bakassi peninsula itself, though both countries now say they are committed to a peaceful resolution of the issue.

In spite of Nigeria's oil wealth, poverty is entrenched. Government efforts at poverty alleviation have suffered



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

from political tension and communal, ethnic and religious violence. In 2002, the government strengthened its National Poverty Eradication Programme (NAPEP). Budgetary allocations to core ministries and agencies for poverty reduction were pooled into a Poverty Eradication Fund. Key social services have not performed well despite increased budgetary allocations. The slow pace of the restoration of basic facilities and the high incidence of strikes in the education and health sectors continue to hamper service delivery by key institutions established to improve the living conditions of vulnerable groups. Health sector performance remains mixed even though its budgetary allocation increased to nearly 5 per cent of total government expenditure in 2002 – its highest share since 1998. This enabled house-to-house visits by medical staff to immunise children against six major childhood diseases to continue, contributing to a rise of the immunisation rate from 74 per cent in 2001 to 75 per cent in 2002. That year also saw the introduction of the government's National Health Insurance Scheme (NHIS). The government intensified surveillance to rid Nigeria of fake, expired and sub-standard drugs and other products, a serious problem that has been giving the country a bad image in the sub-region. Other health indicators, however, including those calculating the number of people per physician, hospital bed and nursing staff, have failed to improve, due in part to frequent strikes by doctors, nurses and midwives.

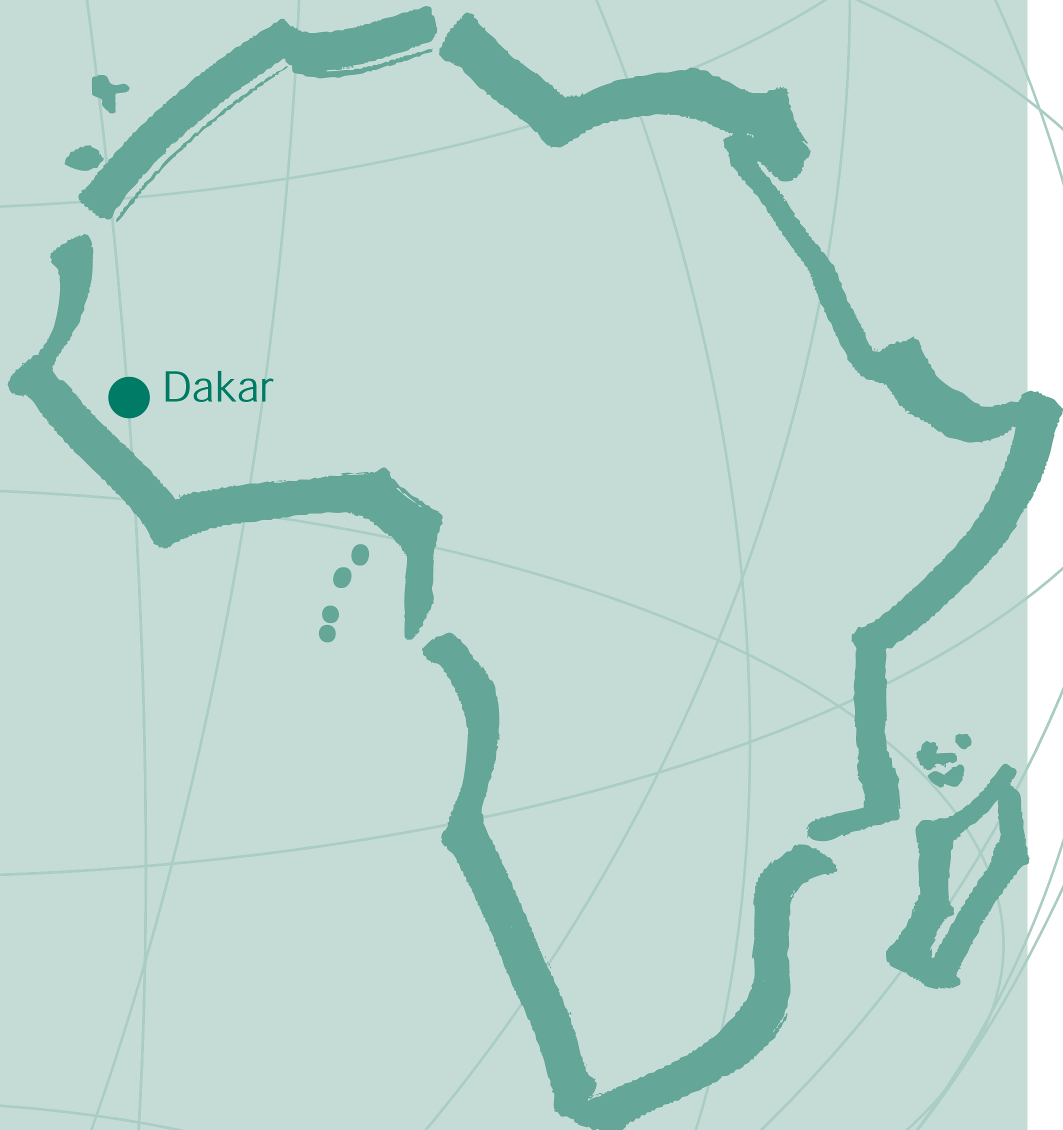
HIV/AIDS continues to pose problems, with its prevalence rate at 5.8 per cent in 2002, having risen from 1.8 per cent in 1991 to 4.5 per cent in 1995, and to the exponential threshold of 5.4 per cent in 1999. While this rate may not appear high in a continent where double-digit figures are not unusual, Nigeria's population of 120 million implies that nearly 4 million citizens are infected. This represents more than 10 per cent of all infected Africans, or over 8 per cent of the global figure. In 2003, the National Action Committee on AIDS established that about 1 000 Nigerians die daily from the HIV/AIDS scourge. On a positive note, the government continues to combat the problem. It is pursuing an initiative for the treatment of infected people. Under the programme, which started in 2003, the government is distributing imported generic antiretroviral drugs from India at less than 10 per cent of the cost of brand names - less than one US dollar per day.

In the education sector the government continues to pursue its Universal Basic Education (UBE) policy. Education is to be free and compulsory for all children at the primary and junior secondary school levels. The education sector's budgetary allocation rose by 9.5 per cent in 2002, constituting 7.9 per cent of the total budget. This enabled the restoration of schools and improved enrolment rates by 8 per cent in primary schools and 7 per cent in secondary schools. The government's focus on UBE poses challenges for higher education. In 2003, the National Universities Commission estimates that a potential 6 million students may wish to enter university education in 2010, the year in which the "Obasanjo UBE children" are scheduled to leave secondary school. Currently, Nigeria's 53 existing universities can only absorb about 166 thousand new enrolments per annum.



© AfDB/OECD 2004

# Senegal




**key figures**

- Land area, thousands of km² 197
- Population, thousands (2002) 9 855
- GDP per capita, $ (2002) 506
- Life expectancy (2000-2005) 52.9
- Illiteracy rate (2002) 60.7

An OECD Browse_it Edition • Read Only • Lecture seule

# Senegal

SENEGAL HAS FOUND ECONOMIC STABILITY since the 1994 CFA franc devaluation and maintained strong annual growth of about 5 per cent. Nevertheless, the country still has high unemployment and widespread poverty and was classed as a least developed country (LDC) in 2001 by the UN Economic and Social Council. The economy largely depends on agriculture (and therefore the weather), as well as foreign aid and remittances from Senegalese workers abroad. Despite official encouragement, private investment and economic diversification are slow in coming owing to physical congestion in Dakar and poor transport to the sub-region.

Political discontent is growing as the popularity of President Abdoulaye Wade's government fades and inequality persists, between both the Cape Verde peninsula and the rest of the country and between the middle class in Dakar and the urban and rural poor. Senegal will also have to do something about availability of land, which is being reduced by desertification and growing urbanisation.

The social and political climate has started to deteriorate while household consumption remained buoyant on remittances and aid.

Good economic performance in recent years was interrupted in 2002. Unexpectedly poor agricultural production (especially peanuts) due to a summer drought cut economic growth (by 1.1 per cent) and per capita GDP – the 20.6 per cent drop in primary sector production accounted for three GDP points. The fall in production was also entirely rolled over in 2002 because of the change in the national accounting system.



Despite this crisis, household consumption, the motor of the economy, remained very buoyant, triggering a rise in imports, while government consumption fell. Growth was estimated at 6.2 per cent in 2003, a big rebound caused by the revival of internal demand.

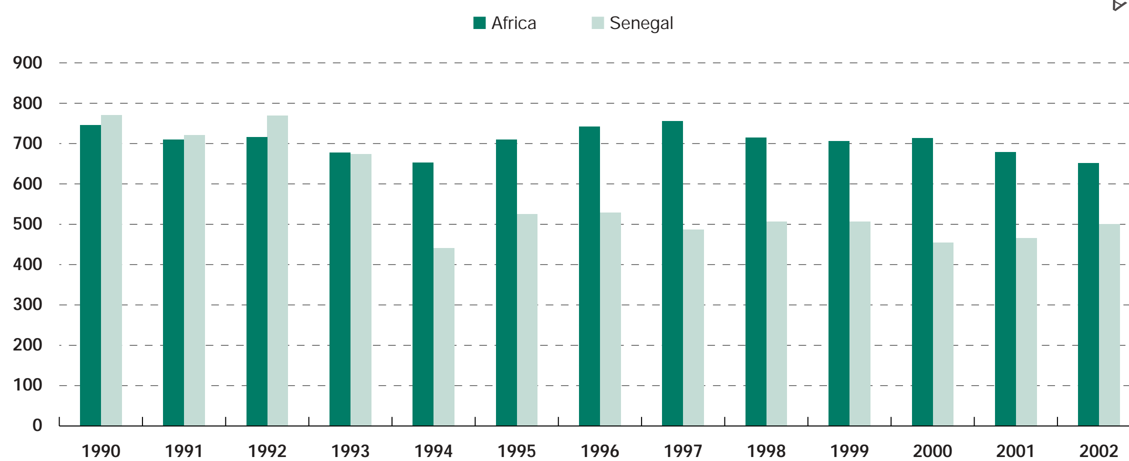
Figure 1 - **Real GDP Growth**

**Source:** *Direction de la Prévision et de la Statistique* data; projections based on authors' calculations.

However, private consumption has begun to slow due to the drop in rural incomes in 2002. The primary sector recovered, though mining and chemicals stagnated. The crisis in Côte d'Ivoire had a small effect on the economy in 2003 through a slight increase in port traffic and a larger rise in non-traditional exports by value to the sub-region. But this activity was marginal in the country's foreign trade so its increase had little effect. The economy is expected to slow, with growth of 6.3 per cent in 2004 and 5.8 per cent in 2005.

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

## Recent Economic Developments

The primary sector slumped by a huge 20.6 per cent in 2002 because of an unexpected 30 per cent drop in agricultural output caused by severe drought. Hardest hit were groundnuts, with a 70 per cent drop, partly due to disrupted markets following privatisation. The crop failures cut rural incomes and famine loomed in early 2003. The government provided emergency aid to the sector and farm production revived (up 36.3 per cent) in 2003 owing to better weather, with record crops of traditional grains (millet and sorghum) and rice. Maize growers also significantly increased output with special help from a government programme to boost farmer confidence and diversify production. The cotton harvest was a record 54 893 tonnes (40 per cent more than in 2002).



Groundnuts were up by 71 per cent, though this was well below capacity at 34 per cent less than the average annual production in the previous five years. About 35 per cent less land was planted and fewer and poorer quality seeds were available due to the bad previous crop. Local fishing catches increased 22 per cent year-on-year in the first nine months of 2003 and meat supplies rose 4.2 per cent.

Industrial production grew 3.7 per cent in 2003, less than the previous year. Housing and construction performed well again (up 10.2 per cent) due to plenty of investment by Senegalese living abroad. After a difficult start, phosphates production for the year rose 4.5 per cent, helped by the opening of a new section of the Tobène mine in October. However, this good-quality product did not immediately reach the phosphoric acid production stage and basic chemicals output was down 10 per cent. The tobacco industry, economically not very important, recorded a huge 43.2 per cent increase, probably due to disrupted supplies from Côte d'Ivoire to the sub-region.

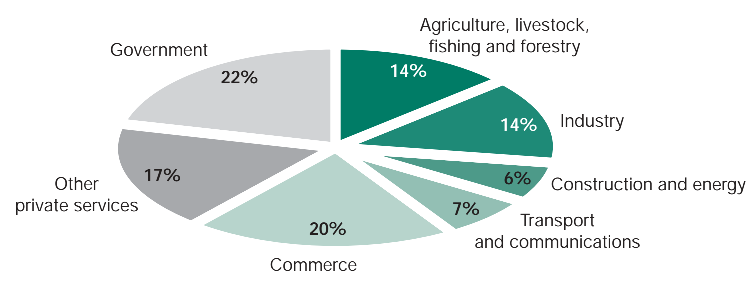
In 2003 industrial production gained from higher energy output (up 10.2 per cent after a year of power cuts in 2002) with the opening of the Manantali hydro-electric dam and a new 30 MW thermal plant in Dakar (Cap des Biches) in February. Food processing slowed, however, because of the continuing decline in groundnut oil production (down 35 per cent).

The tertiary sector advanced only 4.8 per cent in 2003, though indicators were generally healthy, with profit margins up 7.2 per cent and turnover 15.5 per cent higher. Road haulage (down 33.1 per cent) and commerce (up 5 per cent, compared with 5.9 per cent in 2002) were hit by the bad 2002/03 harvest. However, telephone and other services continued to expand and more goods came in through the port of Dakar. The troubles in Côte d'Ivoire also meant that goods destined for Mali were routed through the port.


© AfDB/OECD 2004

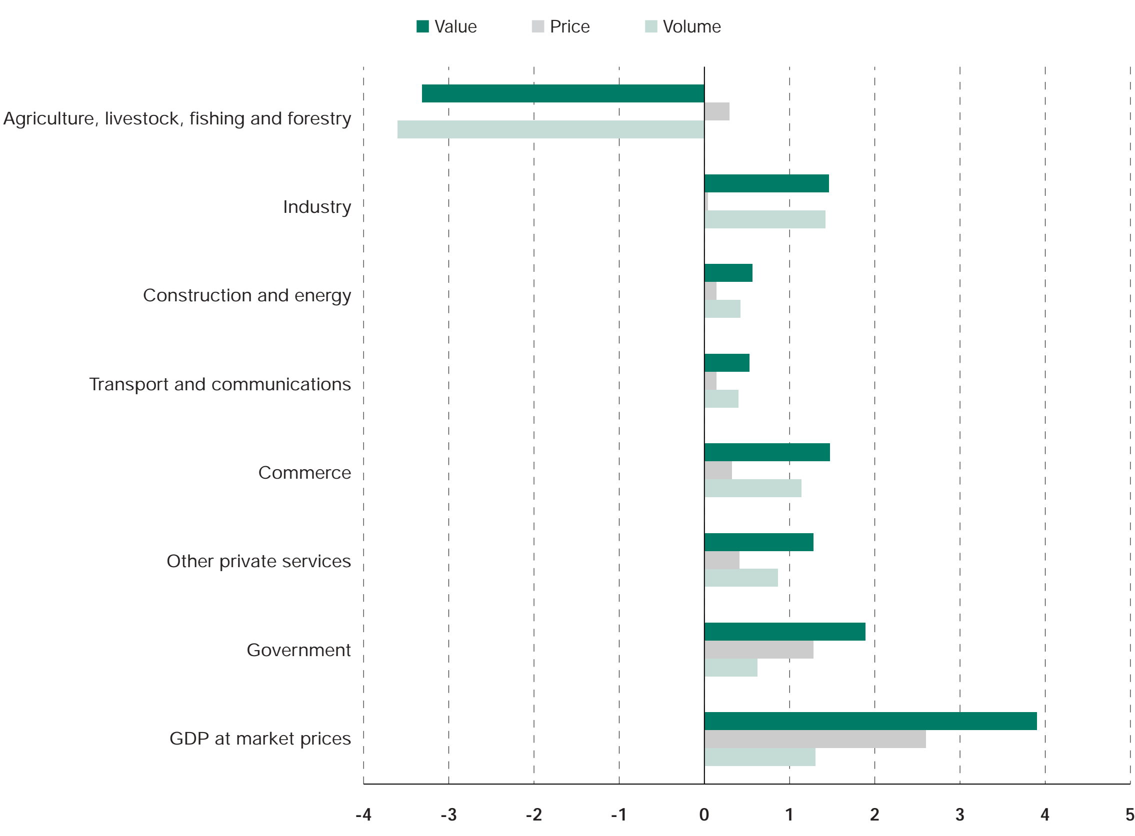
OECD Browse_it Edition • Lecture seule • Read Only

Figure 3 - **GDP by sector in 2002**




**Source:** Authors' estimates based on *Direction de la Prévision et de la Statistique* data.

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**




**Source:** Authors' estimates based on *Direction de la Prévision et de la Statistique* data.

Consumption is the overwhelming (81.1 per cent) component of growth in Senegal, fed largely by remittances from emigrants and the buying power of traders. After slowing down because of less public consumption in 2002, internal demand grew by more than 6 per cent in 2003. However, although the government plans to create jobs in the medium term (5 000 civil service jobs a year for three years, starting from the 2004 budget year) and to implement anti-poverty measures, household consumption began to weaken in 2003. This was the result of the earlier decline in rural income and is expected to continue in the foreseeable future. The external sector, always important in the economy, will have a less negative impact in 2004 as exports improve and imports fall.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **17.6** | **20.8** | **18.3** | **16.7** | **16.3** | **16.5** | **16.5** |
| Public | 3.0 | 5.7 | 6.1 | 8.0 | 7.8 | 8.0 | 8.0 |
| Private | 14.6 | 15.1 | 12.2 | 8.8 | 8.6 | 8.5 | 8.5 |
| **Consumption** | **87.5** | **88.9** | **91.3** | **93.0** | **93.1** | **93.3** | **93.8** |
| Public | 13.9 | 13.7 | 14.8 | 11.2 | 11.6 | 11.6 | 11.5 |
| Private | 73.6 | 75.2 | 76.5 | 81.8 | 81.5 | 81.7 | 82.3 |
| **External sector** | **-5.1** | **-9.7** | **-9.7** | **-9.8** | **-9.4** | **-9.8** | **-10.3** |
| Exports | 31.0 | 29.1 | 30.7 | 30.5 | 29.0 | 27.3 | 26.0 |
| Imports | -36.1 | -38.8 | -40.4 | -40.2 | -38.4 | -37.0 | -36.2 |

**Note:** National accounts have been revised on the basis of the 1993 national accounting system and published in April 2003.
**Source:** *Direction de la Prévision et de la Statistique* data; projections based on authors' calculations.

The big task is to kick-start private investment, which, despite tax incentives and clear policies aimed at the private sector and commerce, is barely filling the gap, though in 2003 it rose (2.1 per cent after declining in previous years) and diversified. Apart from the traditionally strong construction business in Dakar, other sectors are now attracting investors, including the assembly industry (household appliances, computers and vehicles) new information and communications technology (which has benefited from Dakar's speedy link-up to a good international fibre-optic cable network) and horticultural exports.

Such growth is also reflected in the number of projects approved by the national investment promotion agency APIX, which have increased from 438 in 2001, to 470 in 2002 and 573 in 2003. This represents a doubling of the value of intended investment in 2002 and a 40 per cent increase in 2003, with more than 576 billion CFA francs ($983.3 million) expected. Food processing overtook tourism in 2002 as the most popular investment sector, as reported by APIX. Tourism is still the key industry, followed by agriculture. Foreign direct investment remains modest and volatile ($93 million in 2002, against $32 million in 2001 and $136 million in 1999), but better business conditions and more effective investment promotion could improve prospects from 2004.



## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Since the WAEMU convergence, stability, growth and solidarity agreement came into effect in December

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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total Revenue and grants**[a] | **17.7** | **19.6** | **19.9** | **20.9** | **21.5** | **21.0** | **21.6** |
| Tax revenue | 13.3 | 16.8 | 17.3 | 18.1 | 18.0 | 17.9 | 17.9 |
| Grants | 3.0 | 2.0 | 1.8 | 1.8 | 2.5 | 2.1 | 2.7 |
| **Total expenditure and net lending**[a] | **17.9** | **19.5** | **19.6** | **22.2** | **23.7** | **23.5** | **23.3** |
| Current expenditure | 12.7 | 13.3 | 13.2 | 13.2 | 13.5 | 13.4 | 13.2 |
| *Excluding interest* | *10.1* | *11.9* | *12.3* | *12.1* | *12.3* | *12.2* | *12.2* |
| Wages and salaries | 6.3 | 5.5 | 5.3 | 5.7 | 5.5 | 5.6 | 5.6 |
| Interest | 2.6 | 1.4 | 0.9 | 1.1 | 1.2 | 1.1 | 1.1 |
| Capital expenditure | 4.7 | 6.1 | 6.5 | 9.2 | 8.9 | 9.3 | 9.2 |
| **Primary balance** | **2.4** | **1.5** | **1.2** | **-0.2** | **-1.0** | **-1.4** | **-0.7** |
| **Overall balance** | **-0.2** | **0.1** | **0.3** | **-1.3** | **-2.2** | **-2.5** | **-1.7** |

a. Only major items are reported.
**Source:** *Direction de la Prévision et de la Statistique* data; projections based on authors' calculations.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

1999, Senegal's macroeconomic policy has aimed to comply with the convergence criteria to prepare for economic integration in 2005.

Despite the sharp economic slowdown in 2002, Senegal met three out of four primary criteria (positive basic budget balance, the inflation target and no debt arrears, but not the debt ratio) and three out of four secondary ones (all except the current external deficit against GDP). The country did better in 2003 as the economy returned to normal. The budget deficit narrowed but public debt was still just over 70 per cent of GDP and for the first time the tax burden exceeded 18 per cent, up three percentage points in seven years.

Senegal resumed relations with the IMF in 2003 under a new three-year $33 million poverty reduction and growth facility (PRGF), approved on 28 April 2003, to support the government's economic reforms for 2003-05. This provided about $5 million in IMF funds after a year without disbursement. The previous PRGF was curtailed due to budgetary excesses that prevented final programme assessment. The first review of the new PRGF was approved in February 2004 after intense negotiations on an investment code and a suitable way to privatise the vegetable oil marketing body Sonacos.

An advisory group meeting held by the World Bank in Paris in June 2003 raised 840 billion CFA francs ($1.4 billion) in pledges for the country's 2003-05 priority investment programme, which remains very ambitious in view of Senegal's constant difficulty in absorbing such funds.

The transparency of public spending should continue to improve with completion of its analysis by the World Bank. Action plans to streamline its management and to reform the process of awarding government contracts have been approved. Tax reform, continuing in the 2004 budget, is designed to simplify the structure and make it fairer, to revise and enlarge the tax base, to combat evasion and encourage investment and competition. Company tax is set to fall in 2004 from 35 to 33 per cent (in line with World Bank recommendations) and a combined tax (CGU) for small businesses will be introduced.

Senegal has chronic problems in implementing its investment budget, especially where foreign funding is involved. Aid to projects (more than 700 are in the pipeline, backed by more than 50 aid sources and accounting for more than half the total aid budget) is still greater than the more easily disbursed budgetary aid. Funding procedures remain complex and badly harmonised except in the health and education sectors, which are subject to special programmes. The incorporation into the budget of sector strategies, as spelled out in the poverty reduction strategy paper (PRSP) paper, is still in its early stages.

The average execution rate for all public investment projects in 2002 was 73 per cent, but only 59 per cent for foreign-funded ones. However, moves to decentralise and deconcentrate the budget should give more say to ministries and local bodies and partially relieve the government of related responsibilities so as to speed up disbursements.

Budget revenue was 8.5 per cent higher in 2003 than 2002. Direct tax collection was up by 11 per cent in the first nine months and VAT collected on imports rose by 19.5 per cent. Non-tax revenue increased by 18.1 per cent owing to the new fishing policy which allowed for the speedy implementation of advantageous fishing agreements with Mauritania. Some 44 billion CFA francs worth of HIPC funds were added to the revised budget passed in August 2003.

Expenditure rose 14.4 per cent in 2003 and disbursement was apparently problem-free in the first half of the year. The increase was mainly due to an efficient flow of budgeted current expenditure (70 per cent of it was disbursed). Total capital spending was 65 per cent realised for internal funding and 50 per cent where funds came from abroad. There was an overall budget deficit of 2.2 per cent of GDP (-1.1 per cent in 2002).

All quantitative goals were achieved by the end of June despite insufficient spending in social sectors. However the rule about only contracting soft loans was broken in July when the state electricity firm Sénélec signed for a 9 billion CFA franc ($15.4 million) loan from the WADB to pay for urgently-needed investments.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

The 2004 budget, approved by parliament in December 2003, planned for a 6.9 per cent increase in revenue and 8.9 per cent more spending on personnel, with 5 000 new civil service jobs in education and health. The investment budget was set to grow by nearly 20 per cent in relation to internal funding. An overall budget deficit of 2.5 per cent of GDP was predicted, to be financed if necessary by a treasury bond issue since statutory advances by the BCEAO were abolished in January 2003.

Senegal is a member of the WAEMU, so its currency is pegged to the euro and its monetary policy is conducted by the BCEAO. In 2003, internal credits were drawn by credits to the economy and lower intervention rates of the BCEAO. Despite the disappointing 2002 harvest, inflation was brought down from 3 per cent in 2001 to 2.3 per cent in 2002 and virtually zero (-0.2 per cent) in 2003 thanks to a good harvest in that year. Inflation is forecast at 1.8 per cent in 2004 and 2.1 per cent in 2005.



### External Position

Senegal is dependent on public development aid (amongst the highest in West Africa at 45 dollars per capita in 2002) and on remittances from the estimated 400 000 to 500 000 Senegalese abroad. Though remittances are hard to estimate, they are assumed to have risen as worldwide emigration has generally increased. In 2002, 169 billion CFA francs (252.5 million dollars) are estimated to have been sent to Senegal, constituting an increase of close to 80 per cent since 2000.

The trade balance has long been unfavourable because of insufficient exports. The government promotes and encourages exports and an official export promotion agency, ASEPEX, is being set up along with a support fund. These policies aim to help firms be more competitive amid Senegal's high factor costs (especially electricity and transport) and its inadequate tax and legal structure. Adoption of the WAEMU common external tariff has not had the desired effect on regional trade and the forthcoming signature of an economic partnership agreement (EPA) with the European Union has increased local fears of competition. Preparations for the agreement are, however, behind schedule.

Despite the strengthening of the CFA franc against the dollar (due to the rise of the euro) and a 26.4 per cent drop in sales of groundnut products, exports held up in 2003, rising 0.8 per cent thanks to strong sales of cotton (gross sales up 21.6 per cent) and petroleum products (+5.1 per cent). In 2003 other non-traditional exports rose by 9.1 per cent (having doubled in five years), horticultural items by 5.7 per cent and salt by 7 per cent. These results can be explained in part by the conflict in Côte d'Ivoire, which created opportunities for Senegalese exports to the sub-region. However, apart from petroleum, non-traditional products do not yet constitute a significant component of trade.

Senegal's traditional exports have performed poorly. The value of phosphate exports was down 56.5 per cent because the main firm in the sector, ICS (Industries chimiques du Senegal), decided to focus on phosphoric acid production and use up phosphate stocks before opening up a new section of the Tobène mine. After a boom (+63 per cent) in acid sales to India in 2002, chemical exports fell by 18 per cent as acid prices fell sharply (13 per cent) and stocks dwindled. Fishery exports grew by only 0.7 per cent in 2003. Local fishing (for domestic consumption) performed strongly, but industrial fishing (the second source of foreign earnings after groundnuts) is in crisis, with stagnant supply, over-manning and declining stocks. The government is developing a plan for fishing and aquaculture to revive the sector and make it sustainable in the long term. Restructuring measures, for example the temporary halt on new fishing licenses, are already in place.

Imports grew by 5.6 per cent in response to very strong internal demand. They included 36.1 per cent more petroleum products but also more machinery and intermediate goods. This could mean higher industrial output in 2004. Despite greater volume imports after the poor 2002/03 harvest, the national food bill, normally a major item in the foreign account, was smaller due to lower rice and wheat prices.

 © AfDB/OECD 2004

An OECD Browse_it Edition • Lecture seule • Read Only



The overall trade gap worsened slightly, by 56.1 billion CFA francs. Exports covered only 48.5 per cent of imports in 2002 (from 57 per cent in 1997) showing Senegal's continuing problem of integrating itself into the world economy. To reverse this trend, the government in 2002 pledged to encourage exports substantially as part of a technical aid plan for the business sector. The current account deficit rose from 6 per cent of GDP to 6.9 per cent in 2003. The current transfers' surplus increased from 240 to 259.5 billion CFA francs in 2003, mainly due to a rise in public development aid grants. Most transfers are remittances sent back through formal means by emigrants, but remittances are probably underestimated since it is very hard to discover how much is returned through other channels.

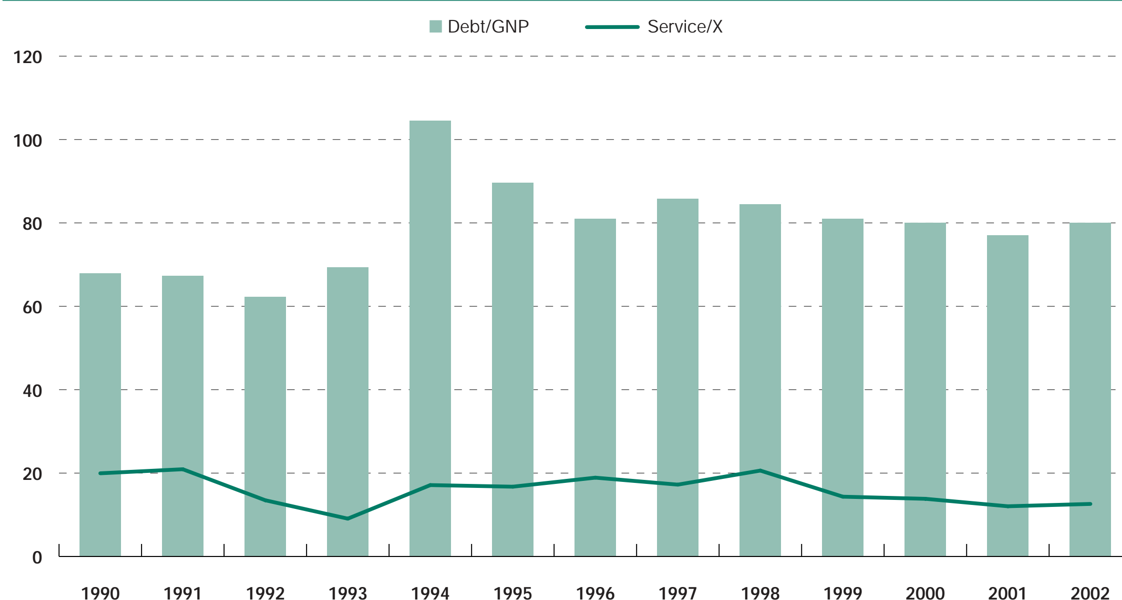
On 31 December 2003, total external public debt was put at 2 150.4 billion CFA francs ($3 671 million after $3 918 million in 2002) and was 64.6 per cent multilateral and 34 per cent bilateral, with the remaining private sector. Interest payments on it rose to 77.1 billion CFA francs ($131.6 million) in 2003 (93.5 billion CFA francs before HIPC relief), which was a saving of 16.4 billion CFA francs ($27.9 million). Debt servicing will be slightly higher in 2004. Senegal reached HIPC completion point in June 2000 and has since received more than 66 billion CFA francs (around

Table 3 - **Current Account** (percentage of GDP)

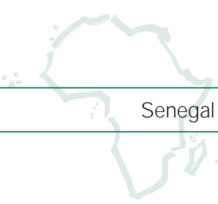
| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -5.0 | -9.3 | -9.3 | -10.3 | -10.4 | -10.5 | -10.8 |
| Exports of goods (f.o.b.) | 19.4 | 20.5 | 22.0 | 21.8 | 20.3 | 19.1 | 18.1 |
| Imports of goods (f.o.b.) | -24.4 | -29.8 | -31.3 | -32.2 | -30.7 | -29.6 | -28.9 |
| Services | -0.1 | -0.4 | -0.3 | -0.3 | | | |
| Factor income | -3.1 | -2.0 | -1.9 | -2.0 | | | |
| Current transfers | 3.4 | 5.6 | 6.7 | 7.0 | | | |
| **Current account balance** | **-4.7** | **-6.1** | **-4.9** | **-5.6** | | | |

Source: *Direction de la Prévision et de la Statistique* data; projections based on authors' calculations.

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




Source: World Bank.





OECD Browse_it Edition • Lecture seule • Read Only

$112.6 million) in interim aid (HIPC funds released have been about 20 billion CFA francs, or $34.1 million, per year), of which 65 per cent has been disbursed. The first IMF review of the poverty reduction programme signed in April 2003 took place in February 2004 and was largely positive. The HIPC completion point is expected to be reached by April 2004.

## Structural Issues

Several structural problems, especially those of high factor costs (especially electricity) and opening up the country's interior, are getting worse and are hindering private investment. Improving the business climate and boosting agriculture remain major challenges.

Electricity supply is still bad, with many interruptions and weaknesses, and costs nearly 60 per cent more than in Côte d'Ivoire (46 CFA francs per kW/h at full voltage compared to 29 in Côte d'Ivoire). Availability is also very limited, especially in the countryside – coverage in 2001 was 55 per cent in towns and only 8 per cent in rural areas. National production is unable to cope with the annual 7-10 per cent growth in demand. A new energy policy statement in April 2003 replaced the previous one of January 1997, since when the energy situation has hardly changed. Biomass remains the main electricity source despite the start-up of the Manantali hydro-electric dam and the continuing growth in the use of butane gas.

The national electricity company Sénélec has a monopoly on transmitting current and is the sole buyer of electricity. It also monopolises distribution and sale within its concession area. Current mainly comes from diesel-powered plants, which produce about 380 MW, partly explaining (along with old-fashioned equipment) why it is one of the most expensive in West Africa. Since 2002, Sénélec has also been getting electricity from Manantali (which Senegal shares with Mali and Mauritania), increasing its capacity by an average 90 MW, though the dam can at times supply up to 130 MW. Some firms (ICS, the sugar company Sonacos and the cement plants Sococim and Ciments du Sahel) have joined forces to produce more than 100 MW. Power cuts declined in 2003 thanks to new sources but quality still suffered from the poor distribution network.

The second Sénélec privatisation is set for late 2004. It was first disposed of in 1999 but was renationalised after 18 months mainly because the acquirer failed to keep an agreement to make up the shortfall in supply. The immediate priorities, before any new concession is made, are cleaning up the accounts and improving the collection of debts. In September 2003, a new general director was appointed to oversee a recovery plan. Progress has been made in billing and the accounts were reportedly balanced in 2003. A major 125 billion CFA franc ($213.3 million) five-year investment plan to renew equipment is being drawn up and a 60 MW diesel plant is to be built at Sangalkam on a build-operate-transfer (BOT) basis. The French Development Agency and the World Bank are helping to fund it but other partners are still needed.

A rural electrification agency, ASER, has existed since 1998 but has never really operated for lack of funds. New legislation in late 2003 could revive it and move towards the goal of bringing current to 30 per cent of

Figure 6 - **Structure of Domestic Energy Supply in 2001**

**Source:** International Energy Agency.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

rural areas by 2015 through public-private partnerships. The countryside has been divided into 18 blocks which will be open to company bids of which nine will be funded by the World Bank, three by the ADB and two by the German KfW banking group.

Private companies are at the heart of Senegal's plans to boost the private sector and exports and to speed up growth. Most firms are in industry (44 per cent), construction (7 per cent), commerce (10 per cent) and other services (39 per cent). However, they have become less competitive and the cost of inputs rose between 1997 and 2001, as shown by the drop in their value added. Their financial ratios have declined and their profit margins have fallen to 4 per cent because they cannot pass on this extra cost to consumers.

Firms are also less competitive because of growing congestion in Dakar, caused by the boom in construction that will double population density on the Cape Verde peninsula in 15 years. Dakar's population will approach 3 million, compared to 3.5 million in Abidjan and 6 million in Johannesburg. Efforts began recently to expand infrastructure in Thiès, the country's second city, and the government plans to transfer the administrative capital to a new town in the Mékhé-Pékesse-Lompoul area by 2006. Senegal lacks good connections with the sub-region, especially Mali, because of dilapidated road and rail links. This was a lost opportunity in the context of the crisis in Côte d'Ivoire, as countries in the sub-region were looking for alternative delivery routes. Ghana, Togo and Benin provided alternatives for Burkina Faso, while Senegal was only able to profit marginally from the diversion of Mali's products. Solutions to this problem seem to be underway as Senegal has joined with Mali to grant a 25-year concession to Transrail (Canac-Getma) in October 2003 to run the Dakar-Bamako railway line and the Kidira-Bamako road was completed in 2004.

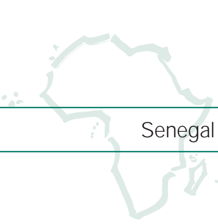
The business climate improved with revision of the mining, tax and labour laws. A law on BOT contracts and concessions was passed. A revised investment law was sent to parliament in January 2004 to channel funds to sectors with growth potential, in which Senegal has a comparative advantage and which create jobs. The establishment of the APIX agency provided a chance to monitor investment plans. The five most promising investment sectors identified as part of the accelerated growth strategy to boost the private sector are tourism, crafts and cultural industries; cotton, textiles and clothing; call centres; industrial farming and food-processing; and fishery products.

Some progress has been made in privatisation. The state textile company Sodefitex (432 jobs), which buys cotton from producer groups but does not have a buying monopoly, was sold in September 2003 to the French group Dagris. But the agreement giving Dagris a 51 per cent share had to be revised after mill-owners objected, and a clause was added in October 2003 to give growers first supply rights and to bring the Spanish subsidiary of Dagris into the 51 per cent share. The new share arrangement is 46.5 per cent for the government, 49 per cent for Dagris and 2.5 per cent for local producers.

After the break-up of the groundnuts sector's collection and transport firm Sonagraines in 2001, privatisation is in sight for the vegetable oil marketing body Sonacos, which is 81.9 per cent government-owned and produces mostly oilcake and refined and unrefined groundnut oil for export. After consultation with the World Bank, this will be done by transfer of a single block of shares, with non-production property assets sold separately. The choice will be between bidders who qualified in December 2003: Lesieur Cristal (Morocco), the French-Senegalese consortium Advance, Sofitex and Desmet, and the Senegalese consortium Guerte Senegal, representing the grower organisations. The Sonacos sale is part of a broader opening-up of the groundnuts sector, the reform of which was presented in the May 2003 groundnuts policy statement.

The financial sector comprises 11 banks and three credit houses. Three banks dominate the market with nearly two thirds of all deposits. The sector continues to diversify – three new banks have opened recently and four more are seeking approval from the BCEAO. Banks have been in generally good condition since the 1989 restructuring, which saw several banks liquidated. However, small and medium-sized firms, the core of


© AfDB/OECD 2004





OECD Browse_it Edition • Lecture seule • Read Only

national industry, are still having significant problems in obtaining loans.

A proposed agricultural framework law (LOA) was subject to much public debate in 2003. The law, supported by the president, aims to spell out the legal, institutional and financial features of a long term (10-to-20-year) national agricultural development plan to draw farmers out of the informal sector. The stakes are high as opportunities shrink in rural areas and land becomes scarce, increasing the risk of social unrest. The first draft of the law presented to farmers' organisations drew strong reactions and they proposed major changes. These included dropping the land aspects (which could be the subject of another law), focusing on social security for farmers and shifting emphasis from an industrial versus family farming approach to one that was "open but family-oriented".

## Political and Social Context



With the end of the "honeymoon period" enjoyed by the regime elected in March 2000, the country's democracy seems to be going through a crisis, or at the very least teething problems. Political peace still largely prevails, unlike elsewhere in the sub-region, with a free media, an opposition that has experience in government and an increasingly well-informed population. However, tensions have developed.

The new rulers have not found their feet and in late August 2003, President Abdoulaye Wade reshuffled his cabinet for the fifth time since he took office, though he kept his prime minister despite their disagreements. The political and social climate has deteriorated, notably with a row over the handling of the September 2002 Joola ferry disaster in which more than 1 800 people drowned, with violence and threats against political and religious figures and unrest among university students, trade unionists and consumers. Parliamentary committees were set up to investigate charges made in a book published in July 2003, which criticised President Wade and discussed government and business corruption. In a bid to calm the political and social climate, on several occasions President Wade has invited opposition parties to join the government. For the moment, however, even the most significant among them have declined the offer.

The atmosphere seems pre-electoral – though the next parliamentary and presidential elections are scheduled for 2006 and 2007 respectively – and government priorities for action are not clear. A mood of drift and impermanence of political decisions prevails, made worse by administrative disorganisation (an excess of agencies instead of ministries, problems of holding on to talented administrators who leave for international organisations or move into the private sector, and lack of internal discipline).

The growing influence and visible economic power of religious brotherhoods (especially the Mourides), whose members are profiting from globalisation, has brought new social aspirations, with success in business replacing the prestige of a civil-service job.

The rebellion in Casamance province flared up again at the end of 2003 but seems to be moving towards a settlement. At this point, no agreement has been reached, but President Wade is hopeful about the progress of peace talks and has proposed an amnesty for the rebels. Promised mine-clearing operations will start soon. Provincial authorities had to close or move schools because of the crisis, which may push the rate of enrolment even lower. The government plans measures to help local children.

Senegal's poverty reduction strategy paper (PRSP), approved by the IMF and the World Bank on 28 April 2003, focuses on creating wealth, capacity building, strengthening basic social services and improving the lives of vulnerable sectors of the population. The government has set an ambitious target of boosting annual growth from 7 to 8 per cent between 2003 and 2005 and reducing the percentage of poor people by at least 15 per cent. Most social stakeholders have complained of inadequate public discussion of the PRSP, carried out hastily to advance the process of the HIPC Initiative. The co-ordination needed for such consultation was also hampered by three changes of finance minister in 2001.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only


Results of the ESAM II household survey (2001-02) were published in February 2004 by the government's forecasts and statistics division and the World Bank. Poverty definitions used were tied to the cost of basic necessities. The food basket was changed from a kilocalorie per day and per adult equivalent basis to a basket-of-goods approach. Differences in the value of the basket according to the year of the survey (1994 or 2000) were taken into account, as were distinctions between Dakar, other towns and cities, and rural areas. Total consumption included non-food items and some services. The total poverty line was the food poverty line[1] with an added amount to cover non-food expenses (such as transport and housing), which meant a large addition for people in Dakar.

This new survey (the results of which differed from those cited in the PRSP) concluded that the number of poor fell from 67.9 per cent in 1994 to 57.1 per cent in 2001 –0.8 points of GDP. Poverty was greater in rural areas than in towns and cities and less in Dakar than other urban areas. It also fell more rapidly in urban than in rural areas. Poverty was worst in the Ziguinchor and Kolda regions, where it affected two thirds of households due to lawlessness and its effect on grassroots organisations and production and consumption networks. Country regions can be classed into three homogenous groups:

- extremely poor (over 60 per cent of inhabitants): Ziguinchor, Kolda, Kaolack and Diourbel.
- very poor (40-60 per cent): Tambacounda, Thiès, Saint Louis and Fatick.
- quite poor (33-40 per cent): Dakar and Louga.

Dakar, one of the least poor areas, has long had the advantage of being more developed than elsewhere because of its status as capital city. The Louga region, which has one of the lowest per capita investment rates, is the source of substantial emigration abroad. Remittances sent back to local families are an important part of the better standard of living there.

Healthcare has inadequate basic infrastructure and personnel and is unequally distributed according to the PRSP. Only half of all households are within a kilometre of a clinic and only 39 per cent are near a maternity hospital. Maternal mortality is 510 in 100 000. Malaria, the main cause of fatal illness, particularly affects pregnant women and children. Infant mortality was 58 per 1 000 in 2002 and infant/child morality was 113 per 1 000. Figures are even worse in rural areas. Children are malnourished, with 20 per cent of children underweight in 2001 and 9.2 per cent with severe malnutrition. Vaccination coverage is only 42 per cent among children aged between 12 and 23 months. The only bright spot is that Senegal has a lower HIV/AIDS rate than many other African countries, with 80 000 people (70 000 of them adults) infected at the end of 2000. This leaves the rate at 1.4 per cent, though not all cases are declared.



In education, enrolment in the first year of primary school has improved (85.1 per cent in 2003) with a particular increase in the number of girls,. The many reforms involved in the 10-year education and training programme are starting to bear fruit. Enrolment, however, is still low in some regions (only 43 per cent in Diourbel), often for cultural reasons, such as preference for Koranic schools, and this is an obstacle to the 90 per cent enrolment target set for 2005. Literacy remains low (40.2 per cent in 2003) but is improving, although the annual rate of improvement is only 1.4 per cent, well below the PRSP target of 3.58 per cent by 2005. The literacy gender gap remains high, at 20 points.

1. Food poverty lines were 342.4 CFA francs a day in Dakar, 317.8 in other towns and cities and 290.9 in the countryside. Total poverty lines were 879.0 CFA francs in Dakar, 712.8 in other urban areas and 497.9 in the countryside.

An OECD Browse_it Edition • Read Only • Lecture seule

# South Africa

**key figures**

- Land area, thousands of km² 1 221
- Population, thousands (2002) 44 759
- GDP per capita, $ (2002) 2 376
- Life expectancy (2000-2005) 47.7
- Illiteracy rate (2002) 14.0

An OECD Browse_it Edition • Read Only • Lecture seule

TEN YEARS AFTER THE END OF APARTHEID, South Africa has achieved budgetary discipline and contained inflation, but still faces the daunting task of reducing inequalities and enhancing growth performances.

The pace of recovery, which started in 1998 and culminated with a 3.6 per cent growth in 2002, lost momentum in 2003 owing to the strong appreciation of the rand and the 2002/03 drought that led growth to fall to 1.9 per cent. Growth is expected to resume in 2004 and 2005 at average rates of 2.5 and 3.1 per cent, supported by lower interest rates and a weakening rand.

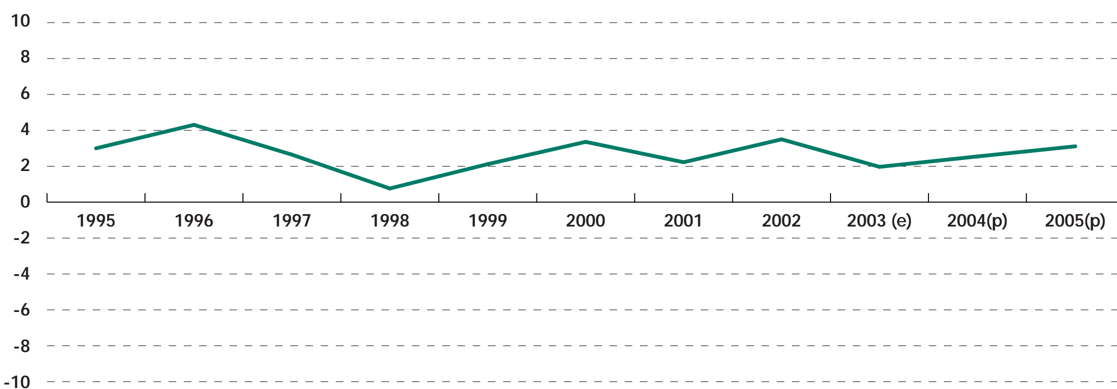
Despite a positive outlook, both investment and output growth are still below the levels necessary to reduce unemployment — which stood at 31 per cent in 2002 — and to achieve more equitable income distribution. Moreover, the country is faced with major social challenges including poor management of social and education systems, principally reflecting poor spending, a high prevalence of HIV/AIDS infection (20 per cent of adult population), and a high level of crime.

In late 2003, the government released a "Ten Year Review" to evaluate the progress and shortcomings of the first ten years of democracy in South Africa. The review identifies the leadership's new priorities, laying out plans to improve social inclusion (by fostering Black Economic Empowerment programmes), encourage skill development, and improve health care. Specifically, in November 2003 the government launched a National Antiretroviral Programme that will triple funding for HIV/AIDS from ZAR3.3 billion to ZAR12 billion (from $437 million to $1.6 billion) over the next three years. This decision, which marks a gradual shift in the South African policy for dealing with the epidemic, has been widely applauded. The success of the programme will however depend on the government's effective political commitment and the ability of provinces to take initiative. The uneven quality of spending and limited absorptive capacity, especially at provincial and local levels, may prove to be impediments to the effective roll-over of the treatment.

**Ten years after the end of Apartheid, South Africa still faces major social challenges such as wide income inequality, high unemployment rates and poor quality of spending.**



Figure 1 - **Real GDP Growth**



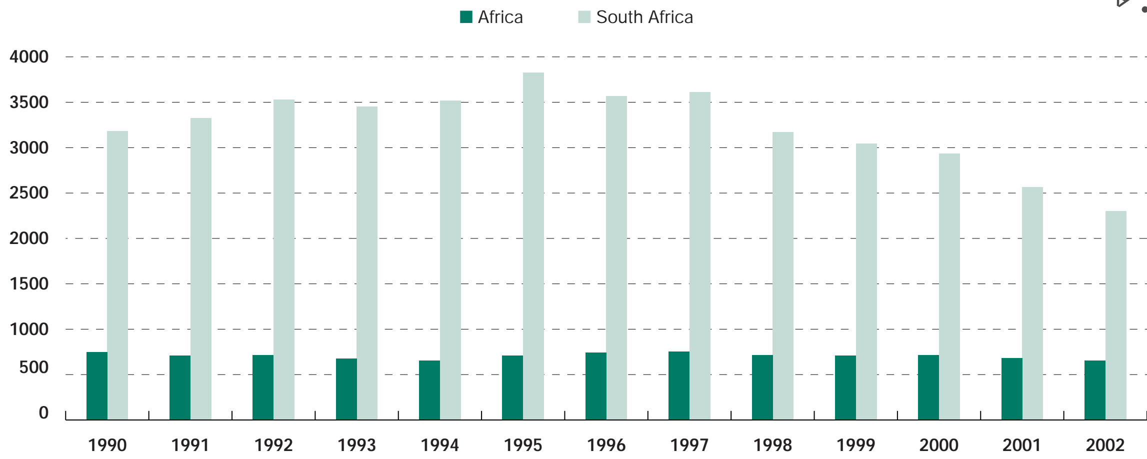

**Source:** South African Reserve Bank data; projections based on authors' calculations.

## Recent Economic Developments

The South African economy inevitably suffered with the slowdown of the global economy, but supported by strong macroeconomic management and a highly competitive exchange rate, it began to recover in 1998, and growth reached a peak of 3.6 per cent in 2002. This performance resulted in an overall strengthening of

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.



confidence in the economy and South Africa's long-term foreign currency debt was upgraded to BBB in May 2003. However, the pace of recovery dropped off in 2003. The 28 per cent appreciation of the rand against the dollar in 2003, as well as feeble international growth, had a severe impact on domestic exports. Combined with a sharp decline in agricultural production as a result of adverse weather conditions, estimated growth for 2003 was 1.9 per cent, significantly below the original target of 3.3 per cent.

Whereas the manufacturing sector strongly benefited from the depreciation of the rand in 2001 and 2002, the rebound of the currency at the end of 2002 constrained both export-oriented industries and the import-competing sector in 2003. The global economic slowdown is also partly responsible for the poor performance of the manufacturing sector. In 2003, increased import competition resulted in a significant contraction in the production of radio, television and communications equipment, basic metals, and chemical products, with a marked effect on employment in local companies. Only the automotive industry continued to perform well in 2003. On the back of a 40 per cent annual increase in vehicle and transport equipment exports between 1996 and 2003, manufactured goods doubled as a percentage of total exports, from 12 per cent in 1996 to 24 per cent in 2003. This is mainly attributed to the Motor Industry Development Programme (MIDP) that was introduced in 1995. It promotes the selective production of vehicle models by granting import duty rebates on the component parts of exported vehicles. The cost competitiveness of the South African automotive industry is threatened however, by the recent appreciation of the rand, rising labour costs and growing competition from South East Asia.

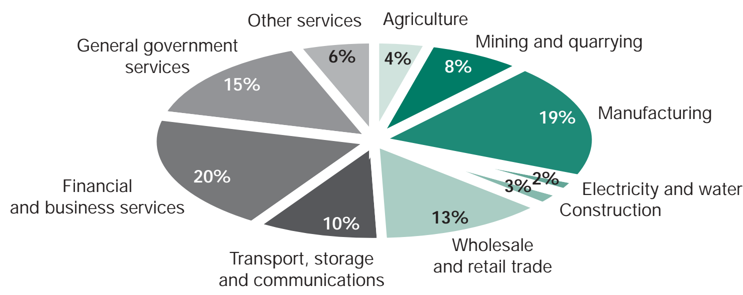
The mining sector registered mixed performance in 2003. The continuous slow decline in gold production (which fell by 2 per cent in 2003) was offset by robust growth in platinum, coal and diamond output. In particular, platinum volumes increased by 14.9 per cent in 2003, driven by automotive industry demand for its use in catalytic converters. Despite real growth in output, the mining sector has been adversely affected by the appreciation of the rand. This led to a 14 per cent contraction of mining revenues in 2003 over 2002 when they stood at around ZAR160 billion ($15.2 billion). Reduced revenues and a rising domestic cost base have put industries under increasing cost pressure. In particular, a 10 per cent increase in mining wages following tense negotiations with the National Union of Mineworkers in 2003, and administrative price setting by *parastatals* are responsible for increasing operating costs (water and electricity prices increased by 18 per cent and 8.5 per cent respectively in 2003), while rail tariffs increased by 35 per cent in the year.



© AfDB/OECD 2004

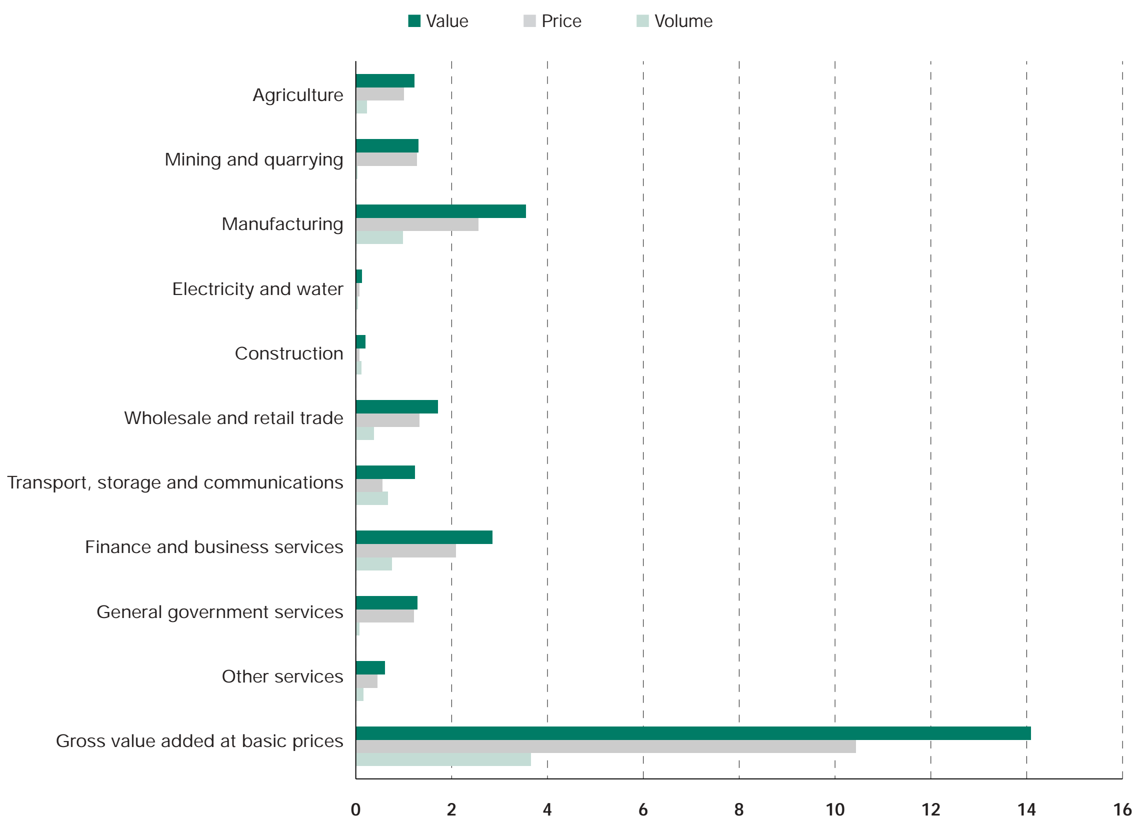
An OECD Browse_it Edition • Read Only • Lecture seule

Figure 3 - **GDP by Sector in 2002**




**Source:** Authors' estimates based on South African Reserve Bank data.

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**




**Source:** Authors' estimates based on South African Reserve Bank data.

The new Mineral and Petroleum Royalty Bill (under discussion in early 2004) will further undermine the industry's cost base, according to which the state will claim an extra 2-8 per cent revenues on various minerals. Mining companies strongly oppose the proposed bill, which should cost the industry about ZAR5 billion ($662 million), arguing that royalties should be charged on profits rather than turnover. The Chamber of Mines has claimed that lower revenues and higher costs have transformed the country from the world's least expensive



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

large-scale gold producer to the most expensive in the course of 2003. As a result, a number of mines are losing money, with 70 000 of the sector's total 120 000 employees facing retrenchment. Many mines have cut capital expenditure, with clear negative implications for future production. In particular, Angloplat, the leading producer of platinum, has reduced its investment provisions for the 2000-2006 period by 28 per cent, also contracting its output objectives for 2006 by about one-third. Platinum output is forecast at only 2.9 million ounces in 2006 (from 2 million ounces in 2002), compared to 3.5 million ounces originally forecast by the Chamber of Mines. Companies are therefore trying to focus on productivity enhancement and cost competitiveness and are negotiating a forward-looking perspective on inflation-linked wage increases with the government.

Over the past two years, some progress has been achieved in promoting economic empowerment for blacks in the mining sector, in line with that sector's empowerment charter, which calls for 15 per cent non-white ownership of mining companies' local assets within five years (increasing to 26 per cent in ten years). In late 2003, the merger of three companies, African Rainbow Minerals, Anglovaal and Harmony Gold Mining, created South Africa's largest black-controlled mining company. Following the merger, 43 per cent of the company — called ARM — will be black-owned.



The tertiary sectors continued to expand throughout 2002 and 2003, recording 3.1 per cent growth in both years. Growth of real output in the retail and motor trade sub-sectors, reflecting lively consumer demand for durable goods, more than offset the decrease in foreign tourism (accommodation and catering) experienced in 2003. While a record number of non-residents visited South Africa in 2002, the recovery of the rand, the general uncertainty linked to the war in Iraq, as well as fear about the spread of SARS were important factors in reducing the number of tourists. With the rand expected to resume a downward trajectory, tourism should rebound in 2004.

Over the same period, the transport, storage and communication sector grew by an estimated 6.2 per cent. Growth was spurred by continued expansion in the telecommunications industry, as the introduction of a third cellular telephone operator – Cell C – in 2001 remained an impetus to growth, compensating for the transport sector's weakened activity linked to reduced export volumes in 2003. Affected by the global downturn, the financial intermediation, insurance, real estate and business services sector decelerated steadily from 6 per cent in 2000 to about 3.5 per cent in 2002 and 2.7 per cent growth in 2003. This was due to lower trading volumes on the JSE Security Exchange of South Africa, but was partly counterbalanced by the good performance of the real estate sector, reflecting a solid housing market.

Agriculture's share of total output is about 4 per cent of real gross value added. However, it remains an important sector in terms of employment, accounting for 10 per cent of the country's jobs. Growth in agriculture is extremely volatile and relies upon output prices and weather conditions. The pronounced decline of 2001 was followed by a strong recovery in 2002. In contrast to many Southern African countries, which suffered from widespread crop failures due to drought in 2002, agricultural output in South Africa grew by 6.5 per cent. However, poor weather conditions in 2003 caused a contraction in output by an estimated 5.9 per cent. The maize harvest, which is the most important field crop (white maize, in particular, is the staple food for millions of people in South Africa), decreased to 9.7 million tonnes in the 2002/03 season compared to 10.1 million tonnes in 2001/02. As a result, the country will be obliged to direct its large food reserves towards meeting internal demand therefore sharply reducing its capacity to send relief to other countries in the region. Maize output is likely to contract further in the 2003/04 season as the dry spell in the South African maize belt in autumn 2003 affected the planting season, causing 20 per cent less land to be planted compared to the previous season. Total maize harvest is estimated around 7.2 million tonnes. Dry conditions have also pushed prospects for wheat production in 2003/04 to below normal levels: the expected wheat crop for 2003/04 is 1 478 thousand tonnes, compared to 2 390 thousand tonnes in the 2002/03 season.

 © AfDB/OECD 2004

OECD Browse_it Edition • Read Only • A Lecture seule



Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **18.1** | **15.7** | **14.9** | **16.1** | **15.7** | **17.1** | **18.2** |
| Public | 4.3 | 4.0 | 3.7 | 3.9 | 4.3 | 5.0 | 5.6 |
| Private | 13.8 | 11.6 | 11.2 | 12.2 | 11.4 | 12.1 | 12.7 |
| **Consumption** | **81.0** | **81.6** | **81.5** | **80.5** | **81.6** | **79.5** | **78.6** |
| Public | 18.4 | 18.8 | 19.0 | 18.8 | 19.5 | 19.5 | 19.4 |
| Private | 62.6 | 62.7 | 62.4 | 61.8 | 62.1 | 59.9 | 59.2 |
| **External Sector** | **0.9** | **2.8** | **3.6** | **3.3** | **2.7** | **3.4** | **3.2** |
| Exports | 23.0 | 28.6 | 30.6 | 33.3 | 28.4 | 29.5 | 29.8 |
| Imports | -22.1 | -25.8 | -27.0 | -29.9 | -25.7 | -26.0 | -26.6 |

**Source:** South African Reserve Bank data; projections based on authors' calculations.

Compared to other emerging economies, South Africa is still characterised by low levels of investment. The investment/GDP ratio decreased from 18 per cent in 1995 to 16 per cent in 2002. Despite government emphasis on the need for public investment as a boost to economic growth, public sector investment has not expanded at a significant pace in the last five years. However, since 2002, gross fixed capital formation has steadily increased, reflecting the higher level of government spending on expanding infrastructure to improve service delivery. On the other hand, growth of private sector capital formation has been spurred by several factors: an exchange rate conducive to importing goods, a lowering of the cost of borrowing, rising prices on international commodity markets, and finally, greater inflationary stability. Such positive developments remain fragile however, as further strengthening of gross fixed capital formation depends both on the government's ability to improve its record in delivering big projects, and on the capacity of the private sector to withstand increasing pressures from slower growth in 2003 and wage increases.

Sustained by above inflation wage increases, and a reduction in income tax and interest rates, private consumption remained buoyant in 2003. Real government consumption also increased over the same period, in line with the moderately expansionary stance of the 2003/04 budget.

The contraction of exports in 2003 as a percentage of GDP reflects the strengthening of the rand over the period. Expectations that the rand will weaken during 2004, especially against the euro, suggest that export performance will gradually recover. On the other hand, rising imports will mirror the acceleration in spending on capital goods.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*



Since the start of the democratisation process, South Africa's macroeconomic policy has been directed with the goal of enhancing the government's credibility by demonstrating to the international community its commitment to stabilise the macroeconomic environment. Over the past ten years, South Africa has made tremendous progress in stabilising macroeconomic fundamentals. Since 1994/95, when the budget deficit was about 5.5 per cent of GDP, public finances have substantially improved and consolidated, resulting in fiscal contraction in real terms.

A gradual transition from fiscal austerity to a growth-oriented policy has taken place since 2001/02. However, despite growing emphasis on reducing poverty and increasing social spending, the fiscal outcomes have retained a conservative stance. Deficit ratios in the past three fiscal years have been below target, reflecting measures aimed at broadening the tax base and improving tax collection via the increased efficiency of the South Africa Revenue Service (SARS), the poor quality of social spending, and the limited absorptive capacity of the provinces and local governments, to

OECD Browse_it Edition • Read Only • Lecture seule

which about 60 per cent of expenditure is channelled. Despite the government's spending re-orientation, the impact on poverty has been limited. Enormous social needs remain unmet and a large segment of the population is excluded from the formal economy — as highlighted by the high unemployment rate — and has limited access to services. In order to face these pressing social challenges, the Medium Term Expenditures Framework (MTEF) for the period 2003/04 to 2005/06 prioritises strengthening investment, increasing capital spending on economic infrastructure and social services, and promoting tax relief to create an environment more conducive to rapid growth and job creation.

Expenditures are focused on poverty-reduction measures, including social grants targeting children in need, labour-based public work programmes and skill training for the unemployed.

Overall spending on social and economic infrastructure, human capital and administrative services, is projected to grow by 5.7 per cent in 2004/05, and at a rate of 4.4 per cent over the MTEF period. Public-sector capital expenditure on urban renewal projects, roads, ports and hospital revitalisation is expected to increase in real terms from 2.4 per cent in 2002/03 to 6 per cent in 2005/06, and will be mainly channelled through an Expanded Public Works Programme. Other priority areas include increasing expenditure on healthcare, following the approval of a National Antiretroviral Programme in November 2003 that will triple funding for HIV/AIDS from ZAR3.3 billion to ZAR12 billion (from $437 million to $1.6 billion) over the next three years, and the extension of income support through the social grant system channelled through provinces. The provinces and local governments are slated to receive a 5.6 per cent real increase in their resource envelope in 2004/05. This is intended to strengthen service provision, accelerate the roll out of free basic electricity, water and sanitation services, as well as distribute school materials and initiate the antiretroviral (ARV) treatment programme.

These ambitious government plans have several shortcomings that may pose challenges to their effective implementation. Despite receiving increased resources, provinces have a very little or no discretion in deciding how the funds transferred to them by the national government should be allocated. The intergovernmental fiscal system remains highly centralised, limiting the scope for an efficient and equitable allocation of resources according to each province's needs. Moreover, although the government launched capacity-building programmes and initiatives to link expenditures to measurable programme objectives in 2003, improving the quality of spending remains a major challenge. Efficient service delivery at central, provincial and local levels is hampered by a series of bottlenecks, originating in an increasing shortage of skilled staff, as well as management deficiencies and inadequate systems for monitoring and evaluating performance.

On the revenue side, the main elements of the MTEF include: the introduction of personal income tax relief and a cut in tax rates on retirement funds (from 25 per cent to 18 per cent) corresponding to 1 per cent of GDP. The MTEF also includes measures to encourage research and development, and investment in productive assets, including tax deductibility for start-up costs. These measures operate in tandem with tax reforms targeted at broadening the tax base and the South African Revenue Services' redoubled efforts to improve collection. The tax burden is expected to remain above 24 per cent of GDP over the forecast period.

Deficits are therefore expected to stay within affordable levels in the medium term. In 2003/04, the overall deficit is estimated at 1.9 per cent, against a target of 2.4 per cent. Revenues were lower than budgeted, as corporate profitability, particularly in export sectors such as mining, fell in response to the economic slowdown and appreciation of the rand in 2003. These factors were also responsible for a fall in customs revenues. The drop in revenues however, was compensated by a lower than budgeted capital expenditure and a reduction in interest payments due to the lower cost of borrowing. A moderate increase in capital expenditure should lead to deficits in 2004/05 and 2005/06 of 2.7 and 2.8 per cent of GDP respectively. However, these figures are still below the government targets of 3.1 per cent of GDP for 2004/05 and 3 per cent of GDP for 2005/06.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • A un Lecteur seul



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

| | 1995/96 | 2000/01 | 2001/02 | 2002/03 | 2003/04(e) | 2004/05(p) | 2005/06(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants** [b] | **22.5** | **23.6** | **24.7** | **24.8** | **24.4** | **24.5** | **24.8** |
| Tax revenue | 22.0 | 23.2 | 24.2 | 24.4 | 24.0 | 24.1 | 24.4 |
| **Total expenditure and net lending** [b] | **27.5** | **25.6** | **26.1** | **26.0** | **26.2** | **27.2** | **27.6** |
| Current expenditure | 25.3 | 25.2 | 25.2 | 25.3 | 24.8 | 25.0 | 25.1 |
| *Excluding Interest* | *20.1* | *20.2* | *20.5* | *21.1* | *21.1* | *21.3* | *21.5* |
| Wages and salaries | 10.3 | 10.0 | 9.8 | 9.9 | 10.0 | 9.9 | 9.8 |
| Interest | 5.2 | 5.1 | 4.7 | 4.2 | 3.7 | 3.7 | 3.7 |
| Capital expenditure | 2.4 | 1.4 | 1.8 | 2.2 | 2.3 | 2.7 | 3.0 |
| **Primary balance** | **0.2** | **3.1** | **3.3** | **3.0** | **1.8** | **1.0** | **0.9** |
| **Overall balance** | **-5.0** | **-2.0** | **-1.4** | **-1.2** | **-1.9** | **-2.7** | **-2.8** |

**Notes:** a: Fiscal year begins 1 April.
b: Only major items are reported.
**Source:** South Africa National Treasury Statistics; projections based on authors' calculations.

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.

On 20 December 2001, the South African rand reached its lowest historic level against the US dollar (13.84: 1). Since then, the rand rebounded strongly against both the dollar and (to a lesser extent) the euro. Between the end of December 2001 and early January 2004, the South African currency appreciated in nominal terms by 105 per cent against the dollar and 50 per cent against the euro.

This substantial appreciation of the rand reflects more than the currency's mere recovery following the 2001 overshooting of the exchange rate; other factors such as a weak dollar, strong real interest rate differentials between South Africa and other financial centres (primarily the US) and an increased appetite among global investors for emerging market bonds since mid-2002 also underpin its recovery. Furthermore, the rand appreciation has been supported by the fundamental drivers of sustained commodity prices (gold and platinum prices increased by 52 and 70 per cent respectively since the end of 2001), and a shift in market perception regarding South Africa's country and currency risk. The South African Reserve Bank has indeed achieved a breakthrough in reducing its rand Net Open Forward Positions (i.e. the component of the forward book not covered by gold and hard currency reserves) to zero, thereby eliminating a major source of vulnerability for the currency and the government fiscal stance.

For all this underlying strength, the surge in the rand exchange rate may be regarded as fairly puzzling in light of the ongoing sluggishness of foreign capital flows to the country in 2003 (including portfolio investment). The strength of the rand might actually be driven largely by a surge in offshore transactions in rand derivatives (especially swaps), as reflected by the high level of unrecorded transactions in the financial account of the balance of payments. In the third quarter of 2003, these stood at more than ZAR14 billion ($1.85 billion), financing the current account deficit more than threefold. The latter development may reflect the widespread use of the South African currency to hedge transactions on commodities, just as it may equally point to intense speculation on the rand. Given this, it is possible to question the durability of the rand's present strength and to retain a view of the currency as highly volatile and susceptible to sudden shifts in market sentiment.

Inflation, as measured by the CPIX index (the consumer prices minus interest costs on mortgage bonds), peaked in October and November 2002 (reaching 11.3 per cent), mainly propelled by the lagged effect of the



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

collapse of the rand in the latter part of 2001, and the poor performance of the agricultural sector (food accounted for 5.3 percentage points of the October 2002 peak). Since then, the country registered a dramatic drop in inflation, still strongly driven (downward this time) by food prices and to a lesser extent, by oil prices and housing costs. The 12-month CPIX index fell below the upper boundary of the inflation target from September 2003. In November 2003, it even receded to below the mid-point of the target range when it reached 4.1 per cent. While the dramatic recovery of the rand after December 2002 has been the overriding driver of the inflation rate from mid-2003 onward, other factors have been instrumental in keeping prices under check; subdued worldwide inflation (oil prices, though volatile, have remained until recently by and large within the OPEC range) and weak external demand both enabled the country to import disinflation.

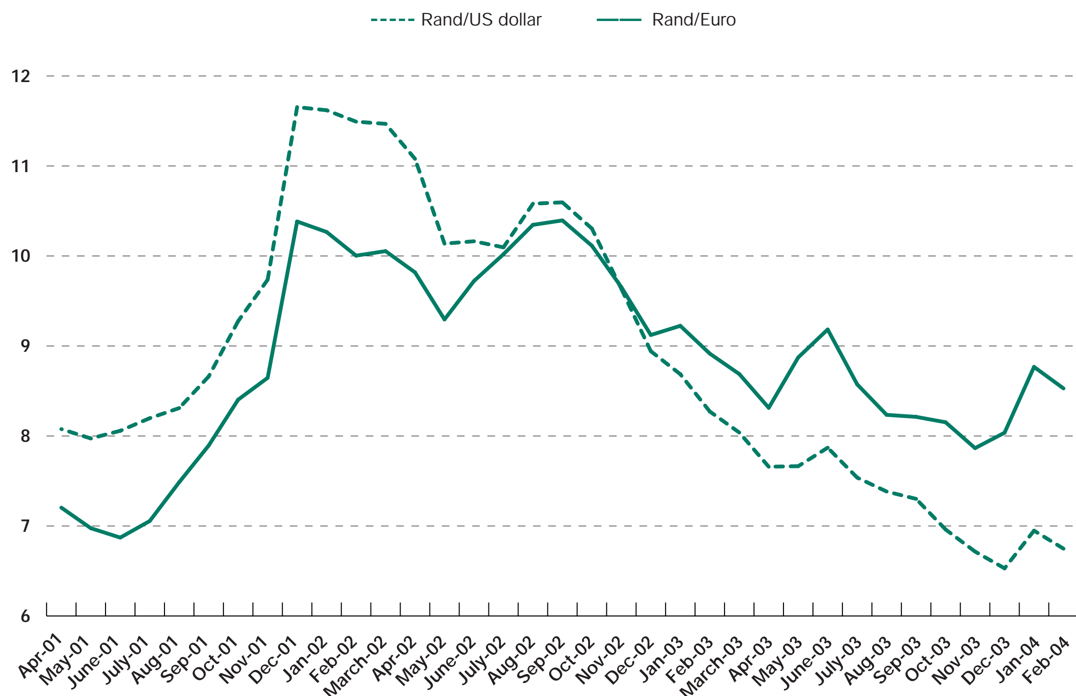
With the improvement of the inflation outlook, the Monetary Policy Committee began to lower interest rates from the middle of the year. The Repo rate was cut by 150 basis points in June, by 100 basis points in August and September, by 150 basis points in October and 50 basis points in December. This resulted in what would appear to be an aggressive lowering of interest rates, amounting to a total reduction of 550 basis points in seven months.



Although nominal rates are at 1980s' levels, the 6 per cent inflation rate experienced in 2003 is significantly lower than the rates prevalent at that time. Real interest rates have doubled from 4 per cent in 1980 to 8 per cent in 2003. As a result, the South African Reserve Bank has been heavily criticised for having been too conservative in cutting rates and for not intervening more aggressively in the foreign exchange market. Some analysts have suggested that the bank missed an opportunity to stem the appreciation of the rand at the same time as replenishing the central bank's hard-currency reserves.

Despite the reduction of short-term interest rates in 2003, the prime objective of the Reserve Bank remains the attainment of the inflation target. Though positive, the outlook for inflation still bears some risks. Unit labour costs have been on a vigorous upward trend in 2003, mirroring high inflation expectations and thereby

Figure 5 - **Rand Performance versus the US dollar and the Euro**




**Source:** South African Reserve Bank.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule • A



acting as an impediment to the disinflation process. Moreover, allowing for the delayed impact of interest rate moves, monetary authorities are already fixing their attention on the 2005 inflation outlook. Their cautiousness is similarly underpinned by the currency's strong volatility. The central bank is seemingly concerned about avoiding any possible move that might trigger a new sharp depreciation of the rand. Overall, CPIX inflation is expected to average 5.1 per cent in 2004 and 4.4 per cent in 2005.

### *External Position*

Although the September WTO ministerial conference in Cancun failed to achieve much in terms of reversing the unbalanced multilateral trade relations for less developed countries and middle-income countries alike, the latter, including South Africa, can claim some progress with the formation of the informal G20+ block. Although somewhat loose, the creation of this group — including Brazil, China and India — is one of the most important outcomes of the Cancun trade talks. With the potential to form alliances with certain developed countries, especially those in the Cairns Group, on specific issues such as agriculture, this group is likely to become more vocal and powerful in the future.

This alliance also paves the way for increasing South-South trade rather than concentrating on further penetrating South Africa's traditional markets, in which tariffs are already relatively low. Establishing closer trade relations with the G20+ group has now therefore been added to the agenda of South African trade policy makers, with Brazil, India and China being identified as likely partner candidates.

The effects of South Africa's free trade agreements are beginning to be felt in the external sector. Over the past four years, South Africa has concluded Free Trade Agreements (FTAs) with the EU and Southern African Development Community (SADC) and has undertaken engagements with new trading partners, particularly focusing on South–South trade.

In terms of the current FTAs, 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 34 per cent of exports and more than 40 per cent of imports in 2002. The EU agreement is heavily in favour of South Africa.

As far as the SADC Free Trade Agreement, launched in 2000, is concerned, South Africa has undertaken to fast track the abolition of 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 will 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 its economy. The export to import ratio between South Africa and the rest of the region has moved from around 5:1 in 1999 to 9:1 in 2002.

South Africa has also benefited from the Africa Growth and Opportunity Act (AGOA), passed by the US in 2000. The major sectors to benefit from AGOA include motor vehicles, clothing and textiles, as well as some agricultural chemicals and basic metals. Duties on South African exports to the US are very low and manufacturing accounts for an increasing share. South



Table 3 - **Current Account Balance** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | 1.8 | 3.4 | 4.2 | 4.1 | 0.5 | 1.1 | 0.8 |
| Exports of goods (f.o.b.) | 19.9 | 24.8 | 26.7 | 29.1 | 21.9 | 22.8 | 22.9 |
| Imports of goods (f.o.b.) | -18.1 | -21.4 | -22.5 | -25.0 | -21.4 | -21.7 | -22.2 |
| Services | -0.9 | -0.6 | -0.6 | -0.8 | | | |
| Factor income | -1.9 | -2.4 | -3.2 | -2.5 | | | |
| Current transfers | -0.4 | -0.7 | -0.6 | -0.5 | | | |
| **Current account balance** | **-1.5** | **-0.4** | **-0.3** | **0.3** | | | |

**Source:** : South African Reserve Bank data; projections based on authors' calculations.

OECD Browse_it Edition • Read Only • Lecture seule

Africa's clothing and textile exports to the US rose by more than 30 per cent to almost ZAR2 billion ($190 million) in 2002. An emerging problem with the AGOA agreement however, is that the US government holds discretionary power to change tariff margins should South Africa's exports to the US start making dramatic inroads in its market. AGOA will expire in 2008, hence there is some urgency among South African policy makers to explore a US-SACU free trade agreement.

The product composition of major exports has remained substantially unchanged over the past ten years although some signs of diversification in the export base are beginning to emerge. Among the top ten export categories, gold and diamonds have declined considerably from 37 per cent in 1992 to 22 per cent, while coal and other ores remained stable with a 3 per cent share. In terms of manufacturing products, resource heavyweights iron and steel also maintained their share (9 per cent), but machinery and motor vehicles have increased theirs to 7 per cent from 2 per cent in 1992.



There is also limited diversity in export markets, with the United Kingdom, United States, Switzerland and Germany consistently figuring as the top four destinations for South African products. SADC countries, the rest of the African continent, India and China have only recently become more prominent on the horizon of South African exporters, while Mercosur has diminished in importance.

The depreciation of the rand boosted trade performance in 2001 and the current account deficit narrowed to 0.3 per cent of GDP. South Africa's trade performance remained robust during 2002, despite the appreciation of the exchange rate beginning in the second half of the year. Foreign earnings were supported 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. Nevertheless, the skyrocketing rand in 2003 seriously affected export earnings. In the mineral sector — which is the major foreign export earner, accounting for 20 per cent of total foreign earnings — the recovery of the currency more than offset gains from higher US dollar commodity prices, causing rand prices to fall substantially compared to 2002. Rand gold, platinum, and coal prices declined by 16, 9 and 5 per cent respectively in 2003, neutralising the increase in volumes of exported metals.

According to an analysis carried out by Trade and Industrial Policies Strategies (TIPS), the export performance picture of non-minerals is somewhat mixed. While sectors such as machinery, electrical machinery, and chemicals appear to have suffered major reductions in their real exports, other industries such as motor vehicles, food, clothing, furniture and plastics have been less affected. It is possible that these latter industries have been more flexible, expanding supply in order to compensate for lower rand denominated prices. It should also be pointed out that in order to remain competitive, some exporters have squeezed profit margins, without reducing export volumes.

The price reduction of imported goods has also been responsible for increasing merchandise imports by 2 per cent in the first half of 2003. Imports of capital goods, such as machinery, vehicles and transport equipment have dominated the surge, accounting for over three-quarters of total imports. The import penetration ratio has increased from 18.5 per cent in the third quarter of 2002 to 20.1 per cent in the third quarter of 2003.

The outcome is that after recording a surplus of 4.1 per cent of GDP in 2002, South Africa's trade balance is estimated at 0.5 per cent of GDP in 2003. Export growth is likely to pick up in 2004 and 2005, on the back of a depreciation of the rand particularly against the euro, that should boost manufacturing exports towards the euro zone. Firmer commodity prices will contribute to higher gold and platinum exports. On the other hand, imports are also expected to continue to rise, mirroring the increasing trend of private and public investments.

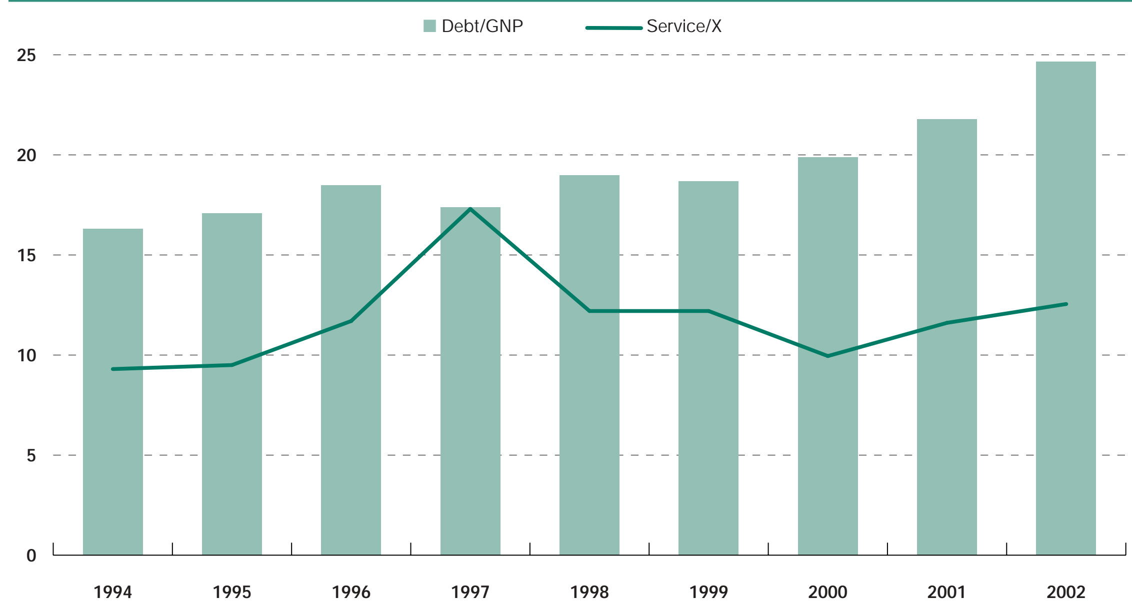
Foreign direct investment in South Africa remains meagre. Few transactions such as the privatisation of Telkom in 1997, as well as the restructuring of the corporate relationship between Anglo American



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** World Bank.



corporation and the De Beers mining company boosted inflows in 1997 and 2001. However, if these deals are discounted, the level of inward investments has been more or less flat since 1994. In 2002, FDI inflows amounted to $754 million. Conversely, South Africa is the main source of outward FDI in Africa (they amounted to $401 million in 2002). South Africa's transnational corporations have traditionally targeted mining and breweries, largely within the region, but some also invested significantly in telecommunications in 2002.

South Africa's foreign currency denominated debt increased to $25 billion at the end of December 2002 from $24 billion in 2001. The national government's foreign borrowing on international capital markets through bond issues, as well as loans to finance the arms procurement programme, are largely responsible for this increase.

## Structural Issues

During the 1990s, the government launched a restructuring programme of state-owned enterprises (SOEs) focused primarily on the key economic sectors of telecommunications, energy, defence and transport. SOE-reform was motivated by several objectives: improving the access of historically disadvantaged sections of the population to services such as telecommunications and electricity; increasing efficiency and reducing costs; and reducing public debt through revenues gained from privatisation. One of the pillars of the restructuring programme, discussed in fuller detail below, was to encourage black economic empowerment (BEE) through the sale of discounted shares and preferential procurement.

In the process of restructuring state assets and liberalising markets previously controlled by state monopolies, new regulatory systems have been established, specifically in the transport, telecommunications and energy sectors.

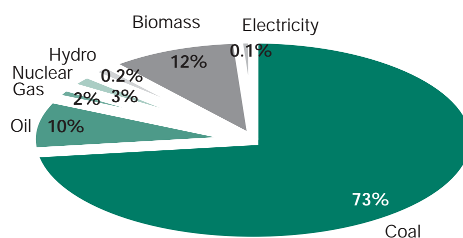
A 1998 White Paper on Energy Policy set the basis for that sector's restructuring programme, which aims to unbundle and privatise the national electricity company, ESKOM. The impact of the envisaged power sector reform and the crucial role played by ESKOM is best understood in the context of the country's energy system.

OECD Browse_it Edition • Read Only • Lecture seule

South Africa's very large coal reserves account for more than 70 per cent of its primary energy. It is relatively cheap by international standards, and coal for electricity production in particular, is among the cheapest in the world. With negligible gas and oil reserves, most of South Africa's liquid fuel requirements are imported in the form of crude oil. In terms of renewable energy, the country possesses good conditions for solar and wind power though hydro potential is very limited.

Biomass, mainly used for cooking and heating, accounts on average for 12 per cent of South Africa's primary energy supply. Much of the primary energy is transformed into final energy, such as electricity and liquid fuels. South Africa's final energy demand in 2000 was composed of: electricity (20 per cent); coal (32 per cent); liquid fuel (31 per cent); biomass (13 per cent); other fuels (3.7 per cent); and natural gas and renewables (less than 1 per cent).

Figure 7 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.



ESKOM supplies about 96 per cent of South Africa's electricity requirements, equalling more than half of the electricity generated on the African continent. The company owns 24 power stations, including several coal-fired power stations, gas turbines and one nuclear power station with a total nominal capacity of 40 585 MW. The national company is among the top seven utilities in the world in terms of generation capacity and among the top ten in terms of sales. It is also one of the cheapest electricity producers due both to the immense capacity of its plants and the relative size of its investment needs. Built in the 1980s, ESKOM's plants have not required capital investment for several years and the cost of older plants has mostly been amortised. However, it is anticipated that by 2007 ESKOM will reach its maximum production capacity and new power stations will have to be brought on-line. In order to support these investments, prices will have to rise.

Some 26 461 km of transmission lines owned by ESKOM span South Africa and carry power to neighbouring countries. However, their stretch poses certain transmission loss and supply quality problems. About 60 per cent of the company's electricity output is delivered directly to customers, with the remainder distributed by about 240 municipal distributors. Domestic consumers account for just 18 per cent of electricity consumption, with the remaining bulk being absorbed by the mining sector. According to 2002 figures, two-thirds of households have access to electricity. The biggest challenge remains to bring power to the immense formal and informal settlements. Distance makes some isolated rural areas difficult to connect to the grid.

The average price of electricity for rural and residential customers is $0.28kWh though this does not cover the full cost of supply. The total annual internal cross-subsidy to these customer categories exceeds $132 million. Moreover, many municipalities face the combined problems of non-payment by a substantial portion of their low-income consumers, resultant debt to ESKOM, inefficiency, and a lack of technical and managerial capacity.

Although ESKOM's performance appears highly efficient when judged by African standards, a series of problems would seem to justify a reform process. Chief among these is the imminent exhaustion of current


© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule • A

capacity and the necessity of investing in new power plants. An additional reform imperative is the need to improve the poor performance of many municipalities. In order to avoid excessive price increases, it will be crucial to create a competitive environment that can invest in generation capacity while sustaining the delivery and expansion of affordable electricity services.

Over the past decade, the pace of the reform has been slow. A "managed liberalisation" plan proposed in 2001 called for 10 per cent of ESKOM's existing generation capacity to be sold to BEE, followed shortly thereafter by the sale of an additional 20 per cent to a strategic equity partner in order to secure foreign direct investment. In the medium term, transmission (wires, system and market operations) would remain an ESKOM subsidiary before becoming an independent state-owned company. On the distribution side, six regional electricity distributors owned by both ESKOM and the municipalities would be established. This unbundling programme was scheduled to commence in 2003, but it incurred delays and is now expected to take place over the next two years.

Within this framework, private investment opportunities in the sector are at the moment primarily focused on generation. The Department of Public Enterprises is currently studying how to allocate the ESKOM plants so that no single company will obtain excessive market power and each generation cluster is financially viable. Significant obstacles to foreign investment in the sector exist beyond generation; first, in order to gain investor confidence, it is imperative that an independent transmission network be created. Regarding distribution, it remains unclear who will bear the risks associated with the cost of restructuring and how municipalities will be compensated for the loss of electricity reticulation. Furthermore, until the regional electricity distribution networks are operational, significant private investment in this area will not take place.

No major privatisation took place in 2003, with the exception of the final disposal of Aventura Resorts and the listing of Telkom, the State Telecommunications Company.

The further sale of 28 per cent stake in Telkom[1] reduced the government's shareholding to 39 per cent. The sale involved a primary listing on the Johannesburg Stock Exchange and a secondary listing on the New York Stock Exchange on 4 March. The weak state of the global telecommunications market led to some disappointment with the IPO however; it netted the government around 0.4 per cent of GDP, compared to a target of one per cent. Telkom's IPO was implemented in accordance with the government's black economic empowerment objectives, promoting equity ownership, procurement and skill transfers. This took place via a two-tiered offering targeted to favour historically disadvantaged sections of the population. However, Telkom continue to retain its stranglehold on the sector. Competition, which was legally supposed to commence on 7 May 2002, with Telkom losing its statutory monopoly on basic services is being delayed. The Second National Operator (SNO) and the under-serviced area licences had not been issued as of February 2004.

Restructuring (in the true sense of the word rather than a synonym for divestiture) however, proceeded with a new management team in place at Transnet, the state transport company, and laid the groundwork for the concession of ports operations. During 2003, the Department of Public Enterprises' efforts to restructure the transport sector were directed at raising the efficiency and delivery capacity systems, responding to raising criticism and concerns about passenger security and cargo service predictability.

However, progress in restructuring Transnet has been slower than anticipated. Its largest division, Spoornet, which is responsible for rail freight and long-distance passenger services, operated without a permanent CEO for most of 2002 and 2003. This had obvious implications for impeding the pace of its quality and efficiency reforms. In addition, Spoornet's

1. A stake of 30 per cent of Telkom's shares was sold in 1997 to Thintana (a consortium of Malaysia Telkom and Southern Bell Corporation, U.S.), a further 3 per cent of Telkom's shares were subsequently sold to BEE company Ucingo in 2001.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

recapitalisation needs and capacity problems posed another major challenge over the period. Although some critical upgrades and refurbishments were completed to maintain current capacity levels, the bulk of recapitalisation is not expected before the end of 2004. Delays in the restructuring process were further hampered by the suspension of the concession for Spoornet's luxury train service, following a fire on one of the trains in early 2003.

In contrast, port restructuring has made good progress. A proposal to establish an independent National Port Authority responsible for infrastructure provision and managing the public port estate was submitted to Parliament in March 2003. In addition, a strategic plan to concession the Durban Container Terminal is being drawn up in an attempt to mitigate the severe congestion problems experienced with container handling there. The plan envisages attracting private operators in order to increase productivity, mobilise private-sector capital for port terminal infrastructure, and accelerate black economic empowerment.



In January 2004, President Thabo Mbeki signed the Black Economic Empowerment Act into law. The policy, aimed at helping historically disadvantaged sections of the black, coloured, and Indian populations (particularly women, the disabled, youth and rural communities), is part of the government's ongoing efforts since 1994 to reverse the legacy of apartheid. The legislation brings together the aims of increasing black ownership of economic resources, human resource development (through greater managerial participation) and indirect empowerment (through preferential procurement). The programme provides for companies and sectors to be evaluated on how well they achieve these three core elements of BEE via "balanced scorecards". As an incentive to promote BEE, the government will take private companies' scorecards into account when granting licenses and concessions, selling state assets and forming public private partnerships. Though there is a measure of flexibility built into the scorecard, permitting it to be adapted to the particular circumstances of specific sectors and companies, it introduces a degree of standardisation to BEE measurement and definition.

Other key policy instruments of BEE include: offering discounted shares in privatisation offerings to encourage black ownership, giving preference to black empowered enterprises in procurement bids, offering institutional support in implementing the strategy as well as creating partnerships and drafting charters with the private sector.

Though the BEE programme will be partly financed through state funds (the 2003/04 budget envisages that over the next five years ZAR10 billion — 0.2 per cent of annual GDP — will be devoted to the programme), the commercial risks associated with it will remain with the private sector. In addition to the mining charter discussed earlier, the financial sector and the Ministry of Finance jointly subscribed to a new charter in line with BEE in October 2003. This requires that by 2010, 25 per cent of the banking sector's capital and assets be black owned.

Most privatisation transactions carried out in 2002 and 2003 envisaged some degree of BEE. Thus far, the programme has met with some success, notably in the forestry sector in which black ownership has increased markedly, bringing benefits to adjacent communities. The liberalisation of the telecommunications market also indirectly furthered the programme. The creation of Cell C, a 40 per cent black-owned company, both increased competition in the industry and furthered empowerment objectives.

On the negative side, difficulties in increasing the number of black people in executive and senior management positions remain, primarily due to a lack of managerial capabilities. In addition, poor financial management practices and reluctance among financial institutions to give start-up capital to entrepreneurs hinder the development of black-owned businesses.

## Political and Social Context

South Africa's third democratic legislative and presidential elections took place on 14 April 2004. About 140 political parties registered with the Independent Electoral Commission (IEC), jostling for positions at the provincial and national levels or both.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only


The electoral campaign was marked by mounting tensions in the KwaZulu Natal province between the ruling African National Congress (ANC) and the InKatha Freedom Party (IFP), which has traditionally enjoyed strong support amongst the Zulu ethnic group. Despite pre-election tensions, the voting process in the region and in the country as a whole was declared free and fair by the IEC and regional observers.

As forecasted by analysts and media, the result of the elections turned out in a significant victory of the ruling party. Securing about 70 per cent of the votes (compared to 66 per in 1999), the ANC obtained its first two-third majority in parliament, with Mr. Mbeki retaining the presidency. The opposition Democratic Alliance (DA), a traditionally white dominated party, came second nationally with about 12 per cent of the votes compared to just below 10 per cent in 1999. The Zulu-based IFP came in third at the polls, with nearly 7 per cent of the votes, mainly concentrated in the KwaZulu Natal province. The ANC obtained outright control in 7 out of 9 provinces. In the Western Cape Province, ANC is expected to continue a coalition govermnent with the New National Party, successor of the ruling party during the apartheid era and now almost entirely limited to the province. A coalition government is also expected in the hotly contested KwaZulu Natal province, where the ANC secured 46 per cent of the votes, compared to 37 per cent for IFP and 8 per cent for DA, IFP's alliance partner. The dominant position of the ANC reflects the lack of a strong parliamentary opposition. The main challenge for the country is therefore the creation of significant political alternatives, beyond the current primarily white opposition party. The re-elected party is faced with the difficult task of balancing the interests of two very different constituencies: the white and new black business community, and the vast community of poor, against the backdrop of a still fragile democracy and high levels of economic inequality.

In late 2003, the government initiated a "Ten Year Review" aimed at evaluating the progress of the first ten years since South African democratisation. If the ANC's prudent economic management is widely recognised as its greater achievement, this has however, been accompanied by a high level of social exclusion. South Africa continues to face formidable challenges with unemployment averaging 31 per cent in 2002[2], 20 per cent prevalence in HIV infection rates and a widening income inequality (the Gini coefficient is 0.59 per cent). Compared to other middle income countries, South Africa performs poorly on many indicators of human development such as life expectancy, infant mortality and poverty (averaging 45 per cent in 2000). Those indicators also vary widely by race group and geographical location.

The high level of unemployment and in particular the decline in formal sector employment is arguably a major challenge facing the government to curb poverty. Factors that contribute to the unemployment problem include the chronic skills imbalances inherited from the apartheid practises, as well as obstacles to labour market flexibility that have kept labour cost relatively high in the formal sector. Among the government intervention for job creation, the most efficacious seem to be the public work programmes, aimed at providing income to poor communities by granting short-term jobs in social service to unemployed people. The main limitation to these programmes is their limited scale. In 2002, the total number of active jobs was about 45 000, only about 1.5 per cent of total unemployed. Nevertheless, the 2004 budget channelled additional resources to the Expanded Public Work Programme, projecting that over the next 5 years at least one million beneficiaries will be provided with employment, income and training. The success of this initiative depends on the joint efforts of the national government, provinces and private sector, and on establishing the means to monitor the progress regularly.

The acceleration of land redistribution represents another priority to reduce poverty and promote rural employment. Although progress has recently been made in restoring land to dispossessed owners during the apartheid practices, the pace of the reform is still disappointingly slow.

2. When discouraged workers are included it averages 41 per cent.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

When the ANC came to power in 1994, it promised that, through voluntary means, over 30 per cent of white-owned farmland would be handed over to non-whites within five years. Ten years later, only 2 per cent has been transferred and 80 per cent of commercial farmland is still owned by some 50 000 white producers.

On the basis of annual surveys of women attending prenatal clinics, it is estimated that 20 per cent of South African adults aged 15-49 years are HIV-positive in 2002, compared to about one per cent a decade earlier.

Since the epidemic began, the government has been criticised for its failure to take concrete action to alleviate the human and economic suffering associated with the disease. The lack of a comprehensive response and co-ordination within the government, and between the government and NGOs has been exacerbated by President Mbeki's controversial antiretroviral stance. Despite a court ruling in July 2002 that requires the government to provide antiretroviral for HIV transmitted from mother to child nationwide, the government has been slow in meeting its obligations. Treatment and prevention measures have been primarily led by charity and international aid organisations, pressure groups and increasingly, private-sector companies, of which about 68 per cent currently have an internal HIV/AIDS strategy.

Several studies have pointed out the adverse economic impact of HIV/AIDS in South Africa through declines in labour force, in savings and investment. A World Bank study, published in July 2003, projected complete economic collapse within three generations in the absence of prompt government intervention. In particular, the report forecast a fall of GDP per head from current levels of $2 300 to only $1 000 by 2080.

International and internal pressure, as well as the political imperative of the 2004 election has compelled the government to act more concretely. In November 2003, the government announced a National Antiretroviral Programme which would triple funding for HIV/AIDS over the next three years, marking a gradual shift in the battle against the epidemic.

The government has set a target of training 24 000 new HIV/AIDS support workers by 2005/06 and of setting up 356 additional treatment sites with co-ordination provided by a regional centre in each of the provinces. Once this system is in place, the goal is to make antiretroviral drugs available to 50 per cent of the country's AIDS patients by 2008, or a total of around 600 000 people. The announcement of the initiative has been widely applauded, yet progress on roll-out will depend on leadership within each province and the province's ability to take the initiative from the national Department of Health. The process is therefore expected to take a long time to be implemented, and access to ARVs risks being very uneven across the country as provinces face different challenges, including insufficient human resources, lack of training of health care workers, lack of treatment literacy, delays in the procurement of the drugs, and the need for specialised equipment. Moreover, many commentators have questioned the degree of political commitment to the plan. There is still some reluctance in parts of the government to act on HIV/AIDS with appropriate urgency, and this more than anything else could determine the programme's success.

In the education sector, near-universal primary school enrolment and major gains in realising equity per learner expenditure have been achieved. Gross primary school enrolment remained steady at around 95.5 per cent between 1995 and 2001. Gross secondary school enrolment was 85 per cent in 2002, indicating a 15 per cent increase from 1992. The learner-facility ratio also declined with classroom sizes reducing from 43:1 in 1996 to 38:1 in 2001, suggesting that students are getting better access to classroom facilities.

Despite these successes, progress both in terms of advancing the quality of education and expanding the range of further education options has been slower. On this front, the country's major challenge remains developing its skill base. The Growth and Development Summit, which took place in June 2003, bringing together representatives from government, business, labour and communities, was an important initiative to address the daunting skills problem.



© AfDB/OECD 2004

An OECD Browse_it Edition • Lecture seule • Read Only

The agreements arising from this summit focused on promoting literacy, learnerships, strengthening the Sector Education and Training Authorities (SETAs) and broadening access to quality education and basic services. With funding from the SETAs and the National Skills fund, business and government have undertaken to draw up a register of least 72 000 unemployed learners by May 2004. Beyond this, several departments have already embarked on major learnership drives. In early 2004, more than 26 000 learners had registered. The SETAs also focus on promoting basic literacy skills to ensure that 70 per cent of workers attain basic levels of numeracy and literacy.



© AfDB/OECD 2004 

An OECD Browse_it Edition • Read Only • Lecture seule

# Tanzania

**key figures**

| | |
|---|---|
| • Land area, thousands of km² | 945 |
| • Population, thousands (2002) | 36 276 |
| • GDP per capita, $ (2002) | 267 |
| • Life expectancy (2000-2005) | 43.3 |
| • Illiteracy rate (2002) | 23.0 |

An OECD Browse_it Edition • Read Only • Lecture seule

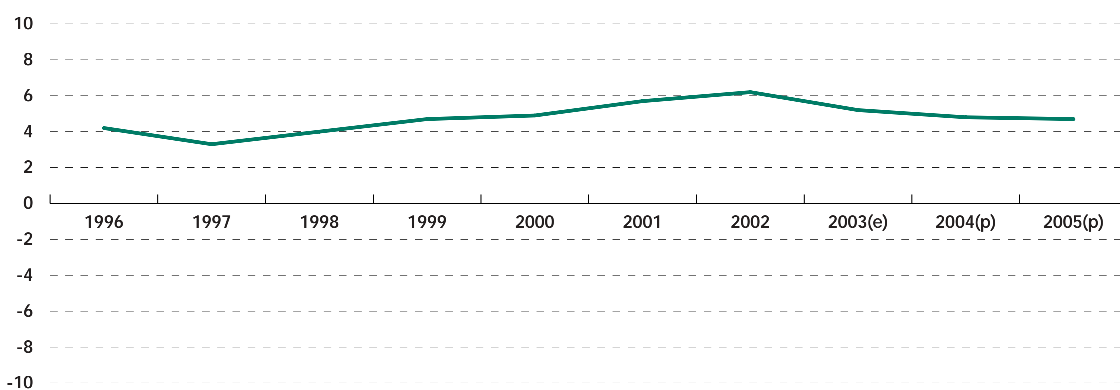
# Tanzania

IN RECENT YEARS, the thrust of economic policy in Tanzania has been to sustain macroeconomic stability through: maintaining relatively strong economic growth; pursuing fiscal stability by increasing domestic revenue mobilisation; controlling the expansion of broad money supply consistent with economic growth and inflation targets; and maintaining adequate levels of foreign exchange reserves. Real GDP growth, which averaged 4.6 per cent during 1996-2001, rose to 6.2 per cent in 2002, and is estimated at 5.2 per cent in 2003. The projection for 2004 is for 4.8 per cent and 4.7 per cent in 2005. The stability in growth during 2004 and 2005 is expected to be backed by strong export performance of both agricultural exports and gold, and by stability in economic management. Tanzania has maintained prudent economic policies that have yielded stability in budgetary outcomes, low and stable inflation, and the stabilisation of interest rates. The external payments situation has also remained largely stable, with changes in the structure of export composition leading to increased export revenues. The continuation of prudent economic policies in 2004 and 2005 will improve the fiscal outcome, while the external payments situation will remain largely stable. However, dependence on donor funds will remain a challenge within economic management. Reforms to diversify the economy and increase private participation are moving apace and include moves to provide the population with increased access to modern forms of energy, and to establish a sound financial system. The privatisation process is continuing, though at a slow pace. Through the Tanzania Investment Centre, local investment is gaining momentum. The economic achievements and progress in reforms have been aided by a political environment that has made Tanzania one of the most politically stable nations in Africa. However, these achievements have yet to translate into large-scale poverty alleviation and poverty remains pervasive, with growing unemployment a major challenge for political stability.

Poverty remains pervasive, with growing unemployment a major challenge for political stability.



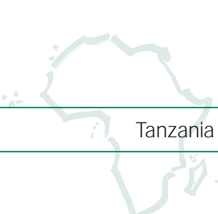
Figure 1 - **Real GDP Growth**




**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

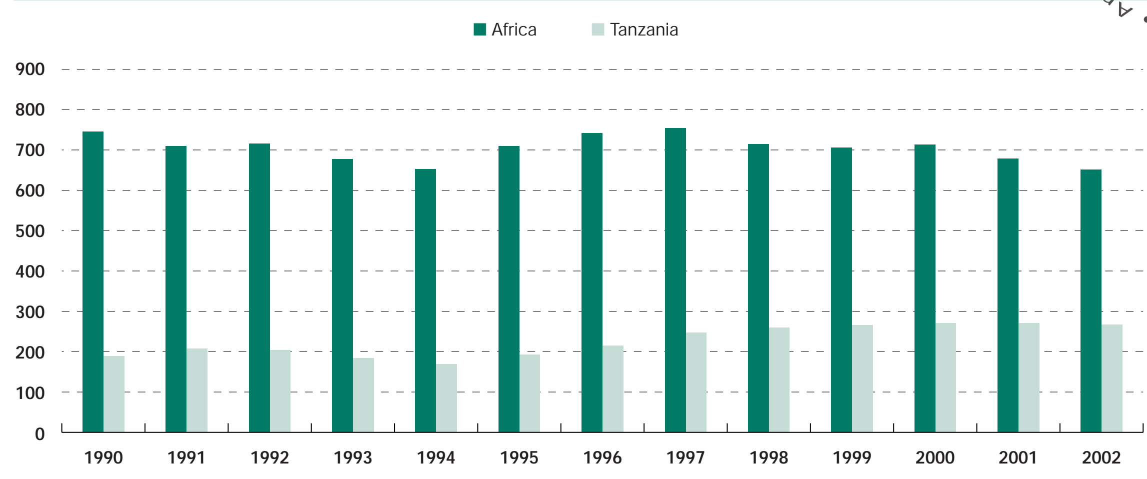
## Recent Economic Developments

The success of the economic programme has produced strong growth. Real GDP growth, which averaged 4.5 per cent during the period 1996-2001 rose to 6.2 per cent in 2002, and is estimated to level at 5.2 per cent in 2003, though the government's own target is 6 per cent. The recent growth performance owes much



OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.



to improvements in the agricultural sector and stability in macroeconomic management. The outlook on growth is moderate, with real GDP growth projected at 4.8 per cent in 2004 and at about 4.7 per cent in 2005. The stability in growth is expected to be backed by strong export performance, as agricultural exports and gold output remain strong.

In 2002 the agricultural sector, which comprised 44.5 per cent of GDP and employed about 80 per cent of Tanzanians, showed strong growth at 5 per cent, albeit below the 5.5 per cent recorded the preceding year. Crop production, which is the main contributor to agriculture, showed a growth rate of 6.2 per cent in 2002. Food-crop production in 2002, including cereals (maize, paddy, millet, finger millet and wheat), amounted to 5 608 000 tons compared to 5 296 000 tons in 2001. Production of non-cereal crops, such as beans, cassava, bananas, pepper, tomatoes, potatoes and others, also increased by 6 per cent from 8 279 000 tons in 2001 to 8 750 000 tons in 2002. Similarly, production of most cash crops (coffee, cotton, sisal and tea) increased in 2002, with the exception of cashew nuts and pyrethrum. Agricultural activity gained from the completion of a major irrigation project in October 2002. In 2003, the government continued to offer direct support while adopting far-reaching measures to enhance agricultural production, including the earmarking and advertising of land for commercial farming, in order to attract investors.

The government sought to increase farm incomes to facilitate purchases of inputs under government guarantees. In addition, the tax system has been reviewed with the government's re-instating the procedure for refunding VAT paid by farmers on transportation, processing and packaging for export crops. Further, a new fund has been established to guarantee micro credit to small-scale farmers and small-scale agriculturalists. These measures notwithstanding, agricultural production in 2003 was affected by drought in several parts of the country. A food security assessment carried out in 2003 by the government and other stakeholders in drought-affected areas established that 52 districts (out of 129) faced food shortages due to poor crop production.

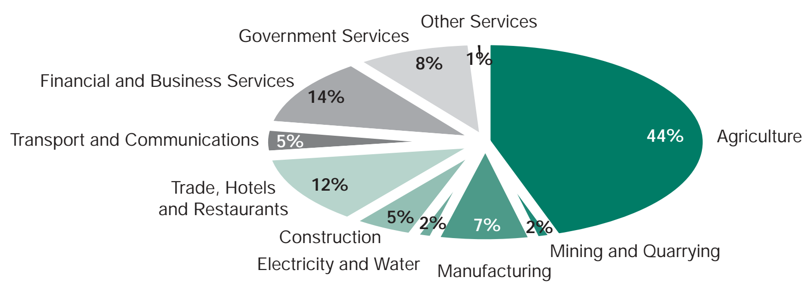
The industrial sector accounted for 16 per cent of GDP in 2002 and recorded 8.6 per cent growth, compared with 7 per cent during the preceding year. During 2002 the manufacturing sector advanced significantly, recording growth of 8 per cent, compared with 5 per cent in the previous year, thanks to the rehabilitation of some industries. The government's strategy of protecting domestic industries through revised custom duties in 2002/2003 also boosted industrial production. This measure was said to be a response to unfair competition from abroad. In 2002, the manufacturing sector was the top attraction for foreign and local investment, as 103 manufacturing projects were approved by the Tanzania Investment



© AfDB/OECD 2004

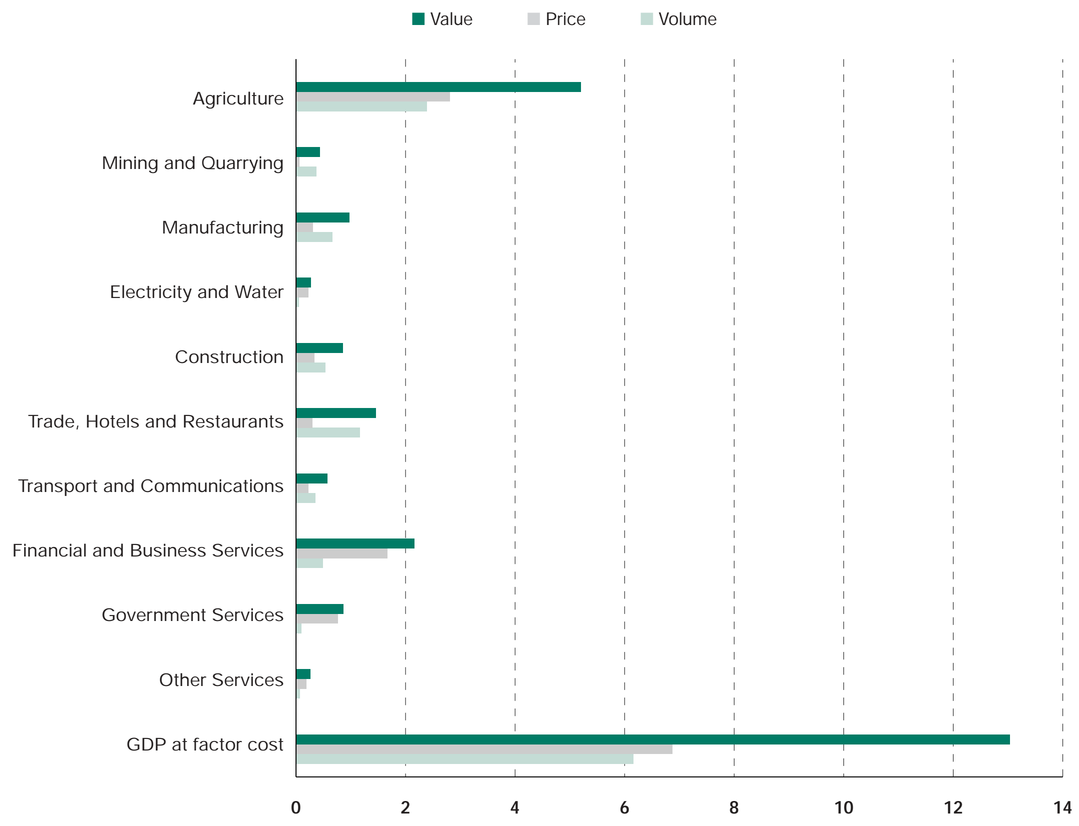
OECD Browse_it Edition • Read Only • An OECD Browse_it Edition

## Figure 3 - GDP by Sector in 2002




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

## Figure 4 - Sectoral Contribution to GDP Growth in 2002




**Source:** Authors' estimates based on IMF data.

Centre (TIC), compared with 82 in 2001. Of the approved projects, 35 were by local investors, 42 were by foreign investors and 26 were joint ventures. The resurgence in manufacturing activity appeared to continue in 2003. The implementation of a Small and Medium Scale Policy that seeks to attract investors into the production of value-added products and export-oriented industries, especially in textiles and the processing of leather, fruit and vegetables, is encouraging investment.

OECD Browse_it Edition • Read Only • Lecture seule

Within the industrial sector, mining activity has continued to grow well, increasing by 15 per cent in 2002, from 13.5 per cent a year earlier. Gold production expanded by 13.4 per cent in 2002 due to the increased participation of foreign and local investors with substantial capital and modern technology. In particular, the start of mining operations by Afrika Mashariki Gold Mines Company in 2002 contributed to output expansion. The government set a target to create at least 50 000 employment opportunities in the mining sector in 2003, a target made difficult by the failure to open new mines.

The services sector improved its growth performance in 2002 to 6.6 per cent from 4.8 per cent a year earlier. Trade activity, including hotels, retail and wholesale trade, expanded by 7 per cent in 2002. Tourism also showed improved performance in 2002. The number of visitors to Tanzania increased to 575 000 in 2002 from 525 122 in 2001, an increase of 9.3 per cent. However, income from tourism activities increased only by 0.7 per cent. The rather slow growth in tourist receipts, due to the continuing adverse global security situation since 11 September 2001, has led to a reduction of US and European visitors, who usually spend the most money in Tanzania. Construction activity remained very strong in 2002 with a growth rate of 11 per cent, up from 8.7 per cent in 2001. This growth was spurred by building and maintenance in the public sector as well as the construction of residential and commercial housing. The bridge over the Rufiji river was a major public construction project that year. The construction sub-sector is expected to remain buoyant as the larger share of the East African Community Roads Project, which was submitted to a donor's conference in April, 2003, is in Tanzania. Besides, under the Poverty Reduction Strategy, the government has committed to give due weight to the construction, maintenance and rehabilitation of bridges, and rural and trunk roads.

The expenditure components of GDP show that the recent upward trend of gross capital formation has been maintained. In 2002, gross capital formation achieved its highest share of GDP for several years, although still below the 20 per cent of 2003, and is expected to increase to 21.6 per cent in 2005. Moreover, while in recent years the increase in capital formation was mainly due to public investment, with private investment stagnating at rather low levels, the outlook is for both public and private capital formation to increase in 2004 and 2005.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **19.8** | **17.6** | **17.0** | **19.3** | **20.1** | **20.8** | **21.6** |
| Public | 3.4 | 6.0 | 5.6 | 7.6 | 8.0 | 8.3 | 8.8 |
| Private | 16.4 | 11.6 | 11.4 | 11.6 | 12.1 | 12.5 | 12.9 |
| **Consumption** | **97.6** | **90.8** | **91.2** | **86.5** | **86.7** | **86.3** | **86.1** |
| Public | 15.3 | 6.6 | 6.2 | 6.4 | 6.5 | 6.6 | 6.6 |
| Private | 82.3 | 84.1 | 85.0 | 80.1 | 80.1 | 79.8 | 79.5 |
| **External sector** | **-17.4** | **-8.4** | **-8.2** | **-5.8** | **-6.7** | **-7.2** | **-7.8** |
| Exports | 24.1 | 14.7 | 15.5 | 16.7 | 17.7 | 18.7 | 19.6 |
| Imports | -41.5 | -23.1 | -23.7 | -22.4 | -24.4 | -25.9 | -27.4 |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Fiscal policy has three main objectives: *a)* to control the growth of the budget deficit ; *b)* to direct more fiscal resources to priority sectors in accordance with the country's Poverty Reduction Growth Facility (PRGF)



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only


agreement; and *c)* to reduce the incidence of waste and abuse in the public sector. Although progress continues to be made on all three fronts, Tanzania still has some way to go in achieving fiscal stability.

In 2002/2003, the government pursued several measures to enhance efficiency in revenue collection. These included strengthening the administration of VAT; controlling tax exemptions; curbing tax evasion on imports, especially on petroleum products; improving the tax structure by introducing fiscal incentives for the priority sectors and eliminating nuisance taxes; and reviewing suspended duties on imports to enhance the business environment through the protection of domestic industries. Suspended duties on various goods are being phased out yearly until they are completely removed by 2007/2008. With regard to non-tax revenue, the government undertook specific measures to strengthen revenue collection. These measures included implementing a strategy to harmonise and rationalise local government levies. On the expenditure side, the government continued to adhere to the cash budget system in its effort to control expenditures.

In 2002/2003, the budgetary outcome remained relatively stable. Total government revenue rose moderately to 16.8 per cent of GDP from 16.2 per cent of GDP the preceding year, due to both the positive outcome of the government's revenue measures and stable inflows of external grants. Major improvements in domestic revenues were reflected in a strong performance of VAT and income tax, which increased respectively by 16 per cent and 15 per cent in nominal terms. On the other hand, government expenditure rose to an estimated 18.7 per cent of GDP from 16.6 per cent of GDP in the preceding year, which means that in spite of a stronger revenue position, the overall deficit increased significantly, from 0.4 percent in 2001/2002 to 1.9 per cent in 2002/2003.

The performance of the budget in 2002/2003 underscored a number of challenges for fiscal stability. In particular, it continued to rely heavily on donor funds. In 2002/2003, this dependence was as much as 45 per cent of total government expenditure. The government appears to have responded to this challenge by intensifying measures to increase domestic funding of the budget. In 2003/2004, such measures include the amendment of the tax system and administration, changes in the taxation system of local governments, amendment of various tax laws, including the enactment of a new income tax law, and the introduction of reforms to increase productivity in revenue collection. On the expenditure side, the government has continued to strengthen management and discipline to ensure sufficient accountability. The government indicated in 2003 that it would amend the Public Procurement Act to enhance accountability further. The outlook on the public finances is a contraction in the fiscal deficit in 2004 and 2005 as the government's domestic revenue mobilisation efforts are complemented by increased grants. The overall fiscal deficit is estimated to fall to 0.2 per cent of GDP in 2003/2004 before rising to 1.8 per cent of GDP in 2004/2005.

The objective of monetary policy in Tanzania is to contain inflation and improve the country's official reserve levels. The Bank of Tanzania (BOT) has had a successful track record in controlling the growth of monetary aggregates over the past five years. The rate of growth of broad money supply (M2) averaged 10.2 per cent per annum during 1996-2000 and was reduced to 8.0 per cent in 2001. However, this success appeared to soften in 2002, when M2 expanded by 18.5 per cent, exceeding the government's target band of 10-12 per cent for the year. The sharp rise in money supply during 2002 was due to higher growth in deposits, largely attributed to the opening of new bank branches by commercial banks in areas previously without banking services. Other reasons for the rapid expansion in deposits included the realisation of privatisation proceeds of about TZS 20 billion, the introduction of automatic teller machines (ATMs) by commercial banks, plus the issuance of new bank notes by the BOT. Additionally, the depreciation of the shilling caused foreign currency deposits to appreciate in terms of Tanzanian shillings on banks' balance sheets. The sharp increase in the money supply during 2002 exposed the inadequacy of ordinary instruments used by the BOT in monetary management. The ordinary instruments (principally open-market operations) were not adequate in mopping up the excess liquidity. As



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

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

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[b] | **14.6** | **15.4** | **15.7** | **16.2** | **16.8** | **18.8** | **19.1** |
| Tax revenue | 11.3 | 10 | 10.6 | 10.6 | 11.1 | 12.3 | 12.8 |
| Grants | 1.4 | 4.1 | 3.8 | 4.3 | 4.8 | 5.3 | 5.3 |
| **Total expenditure and net lending**[b] | **14.7** | **17.1** | **16.8** | **16.6** | **18.7** | **19.0** | **20.9** |
| Current expenditure | 13.8 | 11.6 | 12.9 | 12.5 | 14.0 | 14.1 | 15.3 |
| *Excluding Interest* | *10.4* | *9.7* | *11.3* | *10.2* | *11.8* | *11.8* | *13.1* |
| Wages and salaries | 5.5 | 4.0 | 4.1 | 4.2 | 4.6 | 4.4 | 4.8 |
| Interest | 3.4 | 1.9 | 1.6 | 2.3 | 2.2 | 2.3 | 2.2 |
| Capital expenditure | 0.9 | 5.3 | 3.7 | 3.9 | 4.5 | 4.7 | 5.4 |
| **Primary balance** | **3.2** | **0.3** | **0.6** | **1.9** | **0.3** | **2.1** | **0.4** |
| **Overall balance** | **-0.1** | **-1.6** | **-1.1** | **-0.4** | **-1.9** | **-0.2** | **-1.8** |

a: Fiscal year commences 1 July.
b: Only major items are reported.
**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

liquidity build-up continued throughout the year, the BOT resorted to alternative means of reducing the rate of monetary expansion. The government agreed with the BOT to secure TZS 40 billion of a hitherto dormant government stock held by the BOT; this was converted into long-term bonds with a further TZS 80 billion securitised into Treasury bills. In 2003, monetary policy was tightened in the wake of developments in 2002. The policy was successful in reducing the rate of growth of money supply. The growth of M2 fell to an annualised rate of 13.1 per cent in August 2003.



Inflation in Tanzania has been on a downward trend since 1995, helped by the relatively stable movements in monetary aggregates and by improvement in food availability and distribution. The annual average rate of inflation was stable at 4.5 per cent in 2002. In 2003 following the low supply of food items as a result of adverse weather conditions, the prices of food items rose significantly, but annual inflation remained at 4.3 per cent. Inflation is expected to remain stable at a projected 5.3 per cent in 2004 and 5.4 in 2005.

Interest rates have remained stable in line with the stability of inflation. However, a prevailing large spread between deposit and lending rates remains the underlying feature, and real interest rates on deposits have remained negative. These are inhibiting factors to savings and resource flows to the private sector. The average rate on the benchmark 91-day Treasury bill was 3.3 per cent in 2002, rising gradually in 2003 to 6.3 per cent in August. On the other hand, average deposit rates fell from 3 per cent at the end of 2002 to 2.4 per cent in August 2003, while average lending rates also came down from 16.9 per cent to 14.5 per cent over the same period.

On the foreign exchange market, the exchange rate of the Tanzanian shilling is largely determined by market forces. BOT interventions only served to smooth large transitory fluctuations in the exchange rate. The shilling has continued a gradual depreciation against the major international currencies. Its value in US dollar terms depreciated by 7.6 per cent between end-June 2001 and end-June 2002 and had depreciated by a further 7.2 per cent by end-June 2003. The depreciation in the shilling since 2002 has been triggered by low export sales, which has been due in part to the fall in the prices of traditional exports on the world market.

### External Position

Tanzania's external policy objective is geared towards increased liberalisation. The government's efforts to strengthen the external position have focused on reversing the decline in the country's traditional exports, increasing agro-industry and manufactured exports, and in attracting foreign direct investment and other non-debt-creating financial flows. The country's recent



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



external trade policy has been pursued within the framework of the SADC trade protocols and the East African Community Treaty. In June 2003, member states of the EAC agreed to adopt a common external tariff. The EAC Customs Union Protocol was signed on 2 March 2004 and ratification is expected in July 2004 to pave the way for the new tariffs to apply. The trade agreement, however, revealed differences between the member states. For example, on the common external tariff (CET), Tanzania and Kenya adhered to the 25 per cent stipulated in the original protocol, which proposed a 0- 10- 25 CET tax regime for the regional bloc, with zero per cent being the tax for raw materials, intermediate goods attracting 10 per cent and finished goods being taxed at 25 per cent. Uganda, on the other hand, unilaterally decided to go with a 20 per cent rate for finished goods. The trade agreement also stipulates that while trade between Tanzania and Uganda will be free with the ratification of the customs union, both countries have been allowed to place a surcharge on specified lists of products from Kenya, due to the latter's generally more advanced industrial base.

In 2002, a major improvement in the current account was realised, as the deficit fell to 3.4 per cent of GDP from 5.1 per cent of GDP in 2001. The improvement was derived from a significant reduction in the trade deficit from 8.3 per cent of GDP in 2001 to 6.3 per cent of GDP in 2002, as a rise in the export share of total GDP was met with a fall in the import share. The trade deficit, however, rose to 7.1 per cent of GDP in 2003 and is projected to continue this trend to reach 8 per cent in 2005. The current account balance is likely to deteriorate over 2004/2005 due to an increasing trend in the trade deficit in both years.

In 2002, the value of exported goods increased by 16.2 per cent. The improvement was due to increased export receipts for non-traditional goods, especially minerals, fish and fish products, as well as manufactured goods. Export receipts from minerals increased significantly by over 23 per cent in 2002, with the main contribution (90 per cent) coming from gold exports. The value of exports continued to increase in 2003, rising by nearly 25 per cent by August 2003. Mineral exports have remained the largest contributor to non-traditional exports, and gold and diamond exports, which rose by 27.7 per cent and 52.7 per cent respectively between January and August 2003, recorded good performances. A significant change appears to be taking root in the composition of Tanzania's exports. The share of traditional goods exports (coffee, cotton, sisal, cashew nuts and cloves) in total exports has declined continuously from about 40 per cent in 1997 to 22 per cent in 2002. The decline reflects both the sharp fall in agricultural commodity prices in world markets, as well as stagnant volumes of exports.

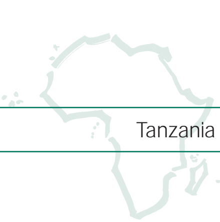
Alternatively, the value of imported goods declined by 3 per cent in 2002. The decrease was attributed to low imports of capital goods, especially for the mining sector, and low food imports. The decline in imports was reversed in 2003 with the value of total imports rising by about 13 per cent during the year to August 2003. The increase was attributed to a surge in imports of capital goods, which were in turn due to a rise in transport equipment imports, as well as building and construction equipment associated with the construction of the gas pipeline between Songo Songo and Dar es Salaam.



Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -12.5 | -7.8 | -8.3 | -6.3 | -7.1 | -7.5 | -8.0 |
| Exports of goods (f.o.b.) | 13.0 | 7.3 | 8.2 | 9.3 | 9.9 | 10.5 | 11.1 |
| Imports of goods (f.o.b.) | -25.5 | -15.1 | -16.5 | -15.6 | -17.0 | -18.0 | -19.0 |
| Services | -4.1 | -0.6 | -0.1 | -0.5 | | | |
| Factor income | -2.1 | -1.1 | -0.9 | -0.9 | | | |
| Current transfers | 6.4 | 4.3 | 4.2 | 4.3 | | | |
| **Current account balance** | **-12.3** | **-5.2** | **-5.1** | **-3.4** | | | |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

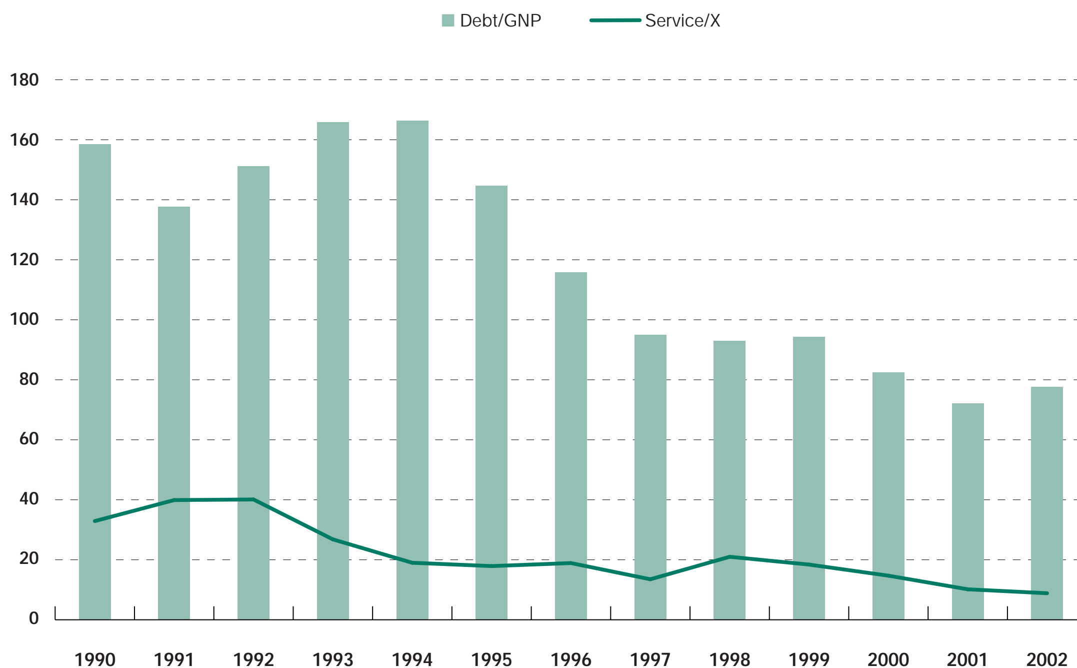




OECD Browse_it Edition • Read Only • Lecture seule

The total external debt of Tanzania stood at $6.8 billion at end-2002, representing a decline of about 6 per cent from the level at end-2001. The debt burden as indicated by the debt-service ratio has also fallen steadily from about 28 per cent in 2000 to 13 per cent in 2002. The fall in both the total debt and the debt burden has been due to the replacement of loan disbursement by grant aid and debt write-offs under the enhanced HIPC initiative. The total debt at end-2002 was owed to multilateral creditors (58 per cent); bilateral creditors (30.9 per cent) while commercial debts and other creditors accounted for 6.3 and 4.8 per cent respectively. In its efforts to maintain stability in the external debt, the government adheres to a policy of not contracting or guaranteeing external debt on non-concessional terms, nor accumulating external payment arrears. Tanzania reached the HIPC completion point in November 2001 and debt relief from all creditors will amount to $2.02 billion in net present value (NPV) terms, about $3 billion in nominal terms. In 2002, Tanzania's Paris Club creditors followed up on their completion point agreement to cancel debt worth $737 million in NPV terms. The amounts cancelled represented 90 per cent of pre-cut off date commercial debt. This arrangement made Tanzania the fourth country after Uganda, Bolivia and Mozambique to complete the Paris Club process of debt reduction under the Enhanced HIPC initiative. Also, the government has made significant progress in concluding bilateral agreements with its Paris Club creditors under the enhanced HIPC programme. In 2003, agreements were signed with Austria, the United States, Canada, Belgium, France, Netherlands, Norway, Germany and Italy.

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




**Source:** World Bank.



The UK government had notified the government of Tanzania that it was providing total debt cancellation, therefore negating the need for a bilateral agreement. With regard to non-Paris Club creditors, Tanzania continues to appeal for debt relief on terms comparable to those under the enhanced HIPC framework.



© AfDB/OECD 2004

OECD Browse_it Edition • An OECD Read Only • Lecture seule

## Structural Issues

The government is committed to transforming the economy by promoting and strengthening the participation of the private sector, both domestic and foreign. A Corporate Plan (2001-2006) is intended to revamp investment incentives in the economy and capitalise on the increasing inflow of FDI to the economy.

Tanzania also continues to take steps to improve the business climate and to promote private investment. During 2002, the government's Tanzania Investment Centre, in collaboration with UNIDO, devised the Domestic Investors Capacity Building initiative. This initiative aims to assist local investors by preparing Bankable Business Plans, which are promoted to local and foreign investors. By August 2003, more than 60 local projects had been promoted globally through this initiative. In 2003, the government implemented more measures to enhance private participation in the economy. These included the establishment of an Export Credit Guarantee Scheme and Micro Credit Schemes, and the liberalisation of regulations for the issue of business licenses. Further, a new Labour Policy and a revised Labour Act were submitted to parliament in October 2003.

The energy sector remains crucial in Tanzania's transformation process with energy resources based on biomass, natural gas, hydropower, coal, geothermal sites, solar and wind power. The objective is to develop energy sources, provide substitutes for imported petroleum products, and ensure that the existing and expanded energy supplies are environmentally sustainable. The national energy policy framework is overseen by the Ministry of Energy and Minerals.

Per capita energy consumption in 2003 was estimated at about 0.7 TOE, up from 0.5 TOE in 1997. Fuel-wood and other forms of biomass supply 89 per cent of Tanzania's energy needs. Commercially supplied petroleum and electricity account for 8.2 per cent and 1.7 per cent respectively.

Electricity supply in Tanzania consists of both interconnected and isolated systems. The electricity sub-sector is largely dominated by the state-owned enterprise, Tanzania Electric Supply Company Limited (TANESCO), which is responsible for about 98 per cent of the electricity supply. TANESCO has a vertically integrated monopoly in the generation and supply of electricity. The existing TANESCO system consists of an interconnected transmission system and several isolated systems. It operates a network of 12 934 km with an installed capacity of 763 MW, of which 561 MW is hydro (only 12 per cent of the potential hydroelectric energy, estimated at 4.7 GW) and 202 MW is thermal. The company has a power purchase agreement with Independent Power Tanzania Limited (IPTL), which owns and operates a 100 MW diesel generating plant. Currently, there are no major interconnections with neighbouring countries, however, studies are being carried out for interconnections with Zambia, and Kenya. Small cross-border interconnections for supplies to isolated townships exist in the northern part of the country from Uganda, and to the southern part from Zambia. Tanzania's electricity market is small, with only about 6 per cent of the population connected to the national grid. Per capita electricity consumption is 46 KWh per annum, which is growing at 11-13 per cent per year. Forty per cent of consumption is for households, 50 per cent for industry and businesses, and the remaining 10 per cent consists of public lighting and exports to Zanzibar.

The current policy objective in the electricity sub-sector is to increase the population's access to electricity and generally to improve the availability, diversity, reliability and affordability of the power supply. To achieve this goal, the government intends to expand the national grid system, isolated systems and service connections. For the interconnected power system, plans include harnessing more locally-available resources of natural gas, hydroelectricity and coal, and improving their generation, transmission and distribution. A number of generation, transmission and distribution projects are being discussed to interconnect new mining areas and emerging load centres in many parts of the country. Currently, the government has agreements with a number of foreign partners to evaluate the 358 MW Ruhudji hydro power plant and the Mchuchuma 400 MW coal-fired power plant. The



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

Zambia-Tanzania transmission project is another major project under consideration, involving the construction of a 330kV transmission line from Pensulo, through Kasama in Zambia, to Mbeya in Tanzania, a distance of about 670 km. Another project under consideration is the Mchuchuma colliery and thermal power station project.

Petroleum provides about 7.2 per cent of the total energy needs of Tanzania. All petroleum is imported. However, Tanzania, with its oil seeps, seismic and other data, shows strong hydrocarbon potential. So far, only 20 wildcat explorations and eight development wells have been drilled in a 222 000 sq km area, thus classifying Tanzania as under-explored. Though a number of companies are exploring for oil, no positive results have yet been found.

Extensive natural gas reserves have, however, been identified. The gas reserves located offshore of the Songo Songo Island in the Indian Ocean are estimated at 726 billion cubic feet.There is also a significant gas field at Mnazi Bay near Mtwara. Ocelot Trans Canada Pipelines (OTC), a consortium of Canadian companies, is already involved in a project to build the gas pipeline. Completion of the Songo Songo gas project is expected to attract more companies to acquire acreage for exploration. Several prospects have been mapped out and the Tanzanian Petroleum Development Corporation (TPDC) has been active in promoting this potential. Tanzania is endowed with other indigenous alternative sources of energy, including coal, wind and solar energy. With estimated coal reserves of 1 200 million metric tons, deposits could provide fuel for 400 MW generation capacity for up to 35-40 years. However, except for a very small existing coal mine at Songwe-Kiwira, these coal deposits remain largely untapped.



The government is in the process of establishing a Rural Energy Agency responsible for facilitating increased availability of energy services in rural areas, supporting research and development in rural areas, creating an institutional and legal framework to promote the application of renewable energy, and promoting entrepreneurship and private involvement in the marketing of renewable energy in the rural sector.

Tanzania's parastatal sector reform programme continues to make significant progress. Up to March 2003, a total of 266 parastatals had been privatised. Among the privatised enterprises, 134 were acquired entirely by Tanzanians, 16 were acquired entirely by foreigners, and 116 were privatised through joint ownership between local and foreign investors. Among the privatised enterprises sold to Tanzanians, 16 were sold to the employees of the respective companies through management buyout. In 2003, the major privatisation was Air Tanzania Corporation (ATC) by joint venture, and the Dar es Salaam Water and Sewerage Authority (DAWASA) via the Lease Agreement System. In addition, the regulatory agency for the water and electricity sectors (EWURA) began operations in July 2003 to ensure that, following privatisation, an adequate regulatory framework would exist to protect consumer welfare.

The government continues with reforms to establish a sound financial system. Tanzanian banks, which dominate the country's financial system, are generally liquid, well capitalised, and resilient to most shocks, according to a Financial System Stability Assessment completed by the IMF in July 2003. The framework of banking supervision is also considered generally adequate when assessed against the Basel Core Principles. The banking system boasts of capital adequacy ratio in excess of 20 per cent. Relatively low lending activity limits the extent of credit risk. However, the financial system plays a limited role in support of economic growth, given its limited depth. In order to strengthen the capital base of the banking system, BOT has adopted a phased increase in the minimum paid-up capital of commercial banks. In addition, Tanzania is implementing the recommendations of the financial task force under the East and Southern Africa Anti-Money Laundering Group to strengthen measures against money laundering. The BOT set December 2003 as a target to review relevant prudential regulations and legislation with a view to relaxing some of the regulations inhibiting investment. To this end, an amendment to the Loans, Guarantee and Grants Act was passed by Parliament in April 2003. In the process of creating a robust regulatory framework for the national payment system, the Bank of Tanzania Act



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



(1995) was amended in February 2003 for the purposes of providing the BOT with explicit powers over the national payments system. In its effort to preserve the soundness of the financial system, the BOT took over the Delphis Bank in March 2003 following its poor financial performance and the inability of its shareholders to inject additional capital to cover losses incurred in its operations. Furthermore, the government is implementing a restructuring plan to address the problems of the People's Bank of Zanzibar. Further, the government is removing impediments to financial sector development, with an amendment to the Land Act, which continues to hamper the use of land as collateral; the amendment was presented to Parliament in October 2003.

## Political and Social Context

Tanzania is one of the most politically stable countries in Africa. The democratic commitment of the country is deepening as the government, in collaboration with other stakeholders, continues to review the structures and strategies for good governance in order to improve government performance. In 2002, the government restructured various government institutions to improve efficiency and enhance accountability. These included the implementation of local government reform programmes in 70 district councils; strengthening the Ethics Commission; and increased awareness in various ministries and departments of the government's anti-corruption strategy. The government also launched the client service charter for 15 Ministries, Departments and Agencies. In addition, the Human Rights and Good Governance Commission began working in 2002.

Although the Tanzanian economy has been growing at a strong pace in recent years, poverty remains pervasive throughout the country. The Tanzanian Household Budget Survey (HBS 200/01), which was carried out as part of the Poverty Monitoring System, and the Integrated Labour Force Survey (ILFS, 2000/01), have both revealed that there has been only rather small improvement in poverty reduction over the past decade. These surveys indicated that 19 per cent of the population lived below the food poverty line in 2000/2001 compared with 22 per cent in 1991/1992. Also, 36 per cent of the population was below the basic needs poverty line in 2000/2001 compared to 39 per cent in 1991/1992 Poverty is revealed to be more severe in the rural areas.

One aspect of the problem is unemployment. Recorded unemployment for the whole country stood at 2.3 million in 2001, which was equivalent to nearly 13 per cent of the total labour force. Nearly half of the unemployed were living in urban areas; unemployment for Dar es Salaam alone was 46.5 per cent, while in other urban areas it was 25.5 per cent and in rural areas 8.4 per cent. Also disturbing was the fact that unemployment is now a major problem for youths aged between 10 and 24.

The focus of Tanzania's poverty reduction strategies, as enshrined in the country's PRSP, is threefold: the reduction of income poverty; improving human capabilities, survival and social well-being; and containing extreme vulnerability among the poor. The implementation of the government's Poverty Reduction Strategy has started registering notable achievements, especially in the education and health sectors. In 2002, the government reviewed its Health Sector Policy, which seeks to improve the health and well being of Tanzanians, with a focus on the poorest and most vulnerable citizens. To these ends, in 2002 the number of districts covered by the Integrated Management of Childhood Illnesses was increased from 31 to 92; the under-five immunisation coverage increased from 74 per cent in 2001 to 79 per cent in 2002. Alternatively, in 2002 the number of people infected with HIV rose to a total of 2.2 million, equivalent to 6.5 per cent of the total population. In the same year, the adult HIV prevalence rate was 7.8 per cent. Out of the infected population, more than a third already had developed AIDS. That the rate of infection has not declined, as it has in neighbouring countries, is most disturbing. In response, the government intensified its war on HIV/AIDS in 2003 by making it a permanent agenda item in all work places. The health sector also began implementing the Second Health Sector Strategic Plan (2003-2006), which aims to improve the delivery of



© AfDB/OECD 2004

services and the quality of care. This includes emphasising the modernisation of health facilities, and ensuring that treatment and primary health care are more accessible to the people.

The government's recent education policy places emphasis on public/private partnerships in developing the education sector. In 2002, the government deepened its collaboration with the private sector and other stakeholders to strengthen the education environment. Through effective community participation in the implementation of the Primary Education Development Programme (PEDP), 15 991 classrooms were constructed in 2002. This achievement helped to raise the primary school gross enrolment rate (GER) to 98.6 per cent in 2003, while the net enrolment rate (NER) was recorded at 80.7 per cent, slightly below the government's own target of 85 per cent by 2003. Furthermore, the total number of pupils in schools (private and government) increased by 23 per cent in 2002. In addition to increased enrolment, the transition rate from primary to secondary school increased from 19.5 per cent in 2001 to 21.7 per cent in 2002. In 2003, the government continued to emphasise the importance of improving education and training at all levels. This included constructing and renovating classrooms and teachers houses to increase enrolment and recruitment of new teachers.

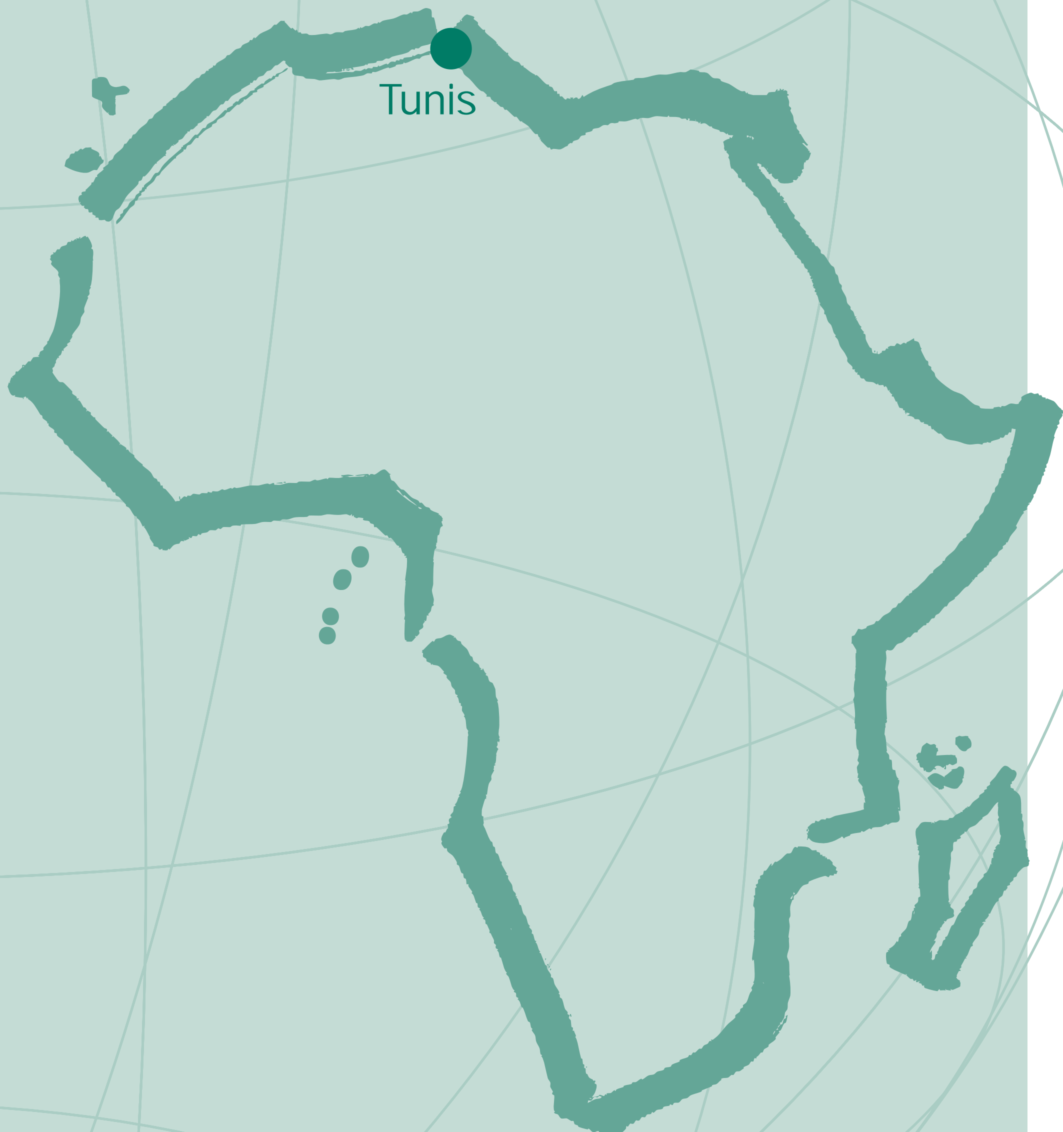
OECD Browse_it Edition • Read Only • Lecture seule





© AfDB/OECD 2004

# Tunisia




**key figures**

- Land area, thousands of km² 164
- Population, thousands (2002) 9 728
- GDP per capita, $ (2002) 2 175
- Life expectancy (2000-2005) 72.8
- Illiteracy rate (2002) 26.9

An OECD Browse_it Edition • Read Only • Lecture seule

# Tunisia

MORE THAN 15 YEARS AGO, TUNISIA set itself the goal of achieving sustained and shared growth, based on a balance between economic and social concerns. The country opted for a market economy in the context of a rebalancing of the respective roles of the public and private sectors, and for gradual integration into the world economy. This approach largely explains the results obtained, since it made the private sector more adaptable and helped to hold down the social cost of adjustment – a necessary condition for preserving political and social stability. In this context, Tunisia in 1995 became the first country to sign a free trade agreement with the European Union under the Euromed initiative.

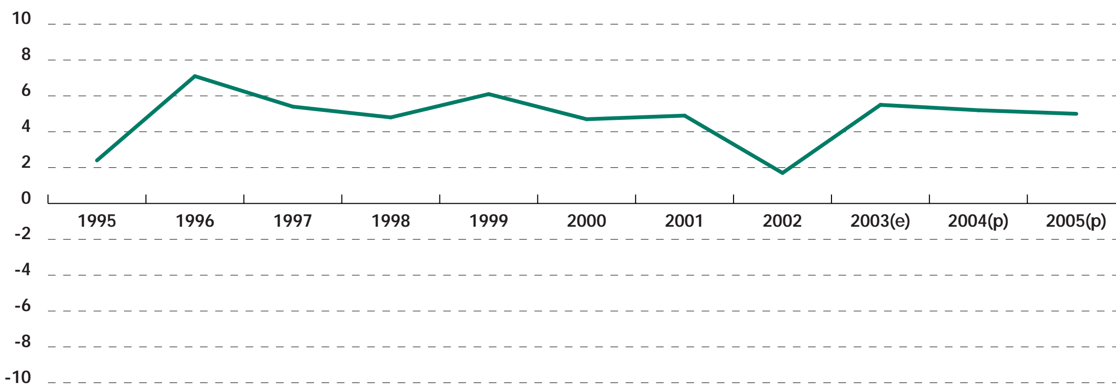
On the basis of these policy choices, Tunisia embarked on a number of reforms aimed at improving competitiveness through a general upgrading of the economy. Such upgrading involves initiatives that affect firms directly as well as actions to improve the business environment by stabilising the macroeconomic framework, restructuring the banking and financial system, adjusting the legal framework and modernising government services.

The government needs to intensify reforms in order to cope with tougher competitive conditions.

Tunisia has recorded annual average growth of roughly 5 per cent over the last ten years, resulting in a substantial decline in poverty, which now affects only 4.2 per cent of the population. Its economy has become considerably more diversified, which has helped it to withstand downturns in economic conditions. In 2002, Tunisia's economy grew by only 1.7 per cent, owing to the negative



Figure 1 - **Real GDP Growth**

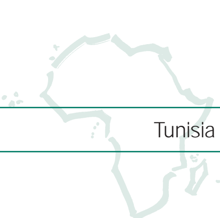



**Source:** Budget data; projections based on authors' calculations.

impacts of the international economic slowdown, the drop in revenue from tourism and another year of drought. The economy nevertheless stood up well to these adverse shocks, as shown by the preservation of its overall equilibria, owing to the continuation of the reforms and sound macroeconomic management. Moreover, it returned to a higher growth rate of 5.5 per cent in 2003, and is projected to grow by 5.2 per cent in 2004 and 5 per cent in 2005.

Despite these generally positive results, the government needs to continue and intensify reforms in order to cope with tougher competitive conditions on both domestic and external markets. With this in mind, and to attain

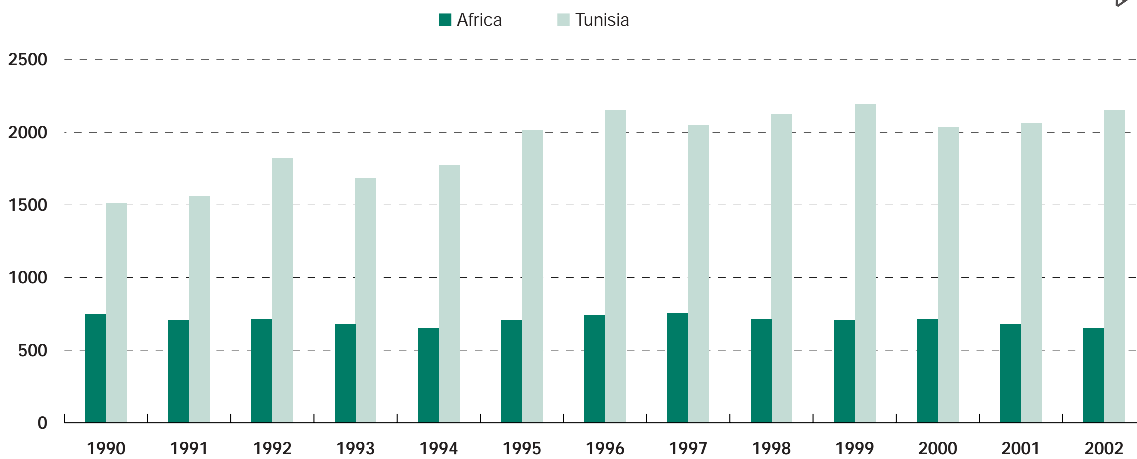
© AfDB/OECD 2004





OECD Browse_it Edition • Read Only • Lecture seule

Figure 2 - **GDP per Capita in Tunisia and Africa** (current $)




**Source:** IMF.

the targets of the 10th national development plan (2002-2006), Tunisia must sharply increase investment (by nearly 70 per cent) in order to modernise and expand production capacity.



## Recent Economic Developments

Economic growth in 2002 was heavily affected by the slowdown in the agricultural sector, which has suffered from four years of drought with notable adverse effects on field crops, tree crops and livestock raising.

Agricultural value added, which had already dropped by 2 per cent in 2001, fell a further 11 per cent in real terms. This drop was mainly due to the sharp decline in cereal grain production, down approximately 62 per cent from the preceding crop year (5.1 million quintals), and the relatively modest crop of olives for oil (150 000 tonnes), which meant that oil production fell by 74 per cent with respect to 2001. In addition, citrus fruit production (235 500 tonnes) dropped by 1.9 per cent over 2001, and fishing output by 1.8 per cent. The impact of the drought might have been worse had it not been for the reform measures taken by the Tunisian authorities throughout the preceding period, particularly those relating to the development and management of water resources, the preservation of forests, water and soil conservation, and modernisation of the agricultural sector. The sector posted better performance in 2003, with an estimated real growth rate of 21.6 per cent, and growth of 3.9 per cent is forecast for 2004.

Value added in the industrial sector grew 3.1 per cent in real terms in 2002, down with respect to the higher rate of 5.7 per cent observed in 2001. Non-manufacturing industries grew by 5.2 per cent in 2002 (3.7 per cent in 2001), primarily because of the relatively strong growth in construction and civil engineering (6 per cent in 2002, although this figure is down with respect to the previous two years: 7 per cent in 2001 and 10.2 per cent in 2000). Value added in the energy sector grew by only 4.9 per cent and that of mining by about 1 per cent. In 2003, these industries are expected to post a slower real growth rate of 2.8 per cent, reflecting a slowdown of two percentage points in the growth of construction, and even more importantly, the decline of nearly six points in the fossil fuels sector (0.6 per cent in 2003 as compared to 6.5 per cent in 2002). In 2004, however, the Tunisian authorities expect real growth of 4.6 per cent in non-manufacturing industry, owing to an upturn in construction and in fossil fuels.

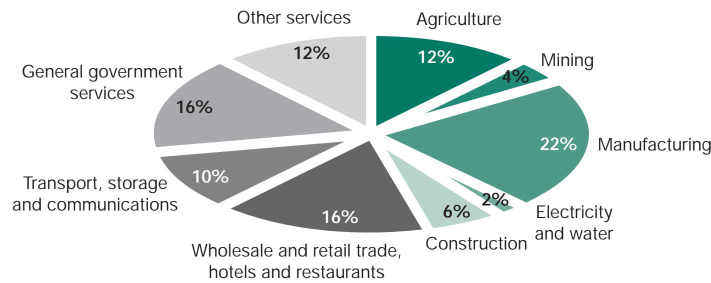
In manufacturing, activity slowed considerably after three years of substantial growth, reducing the real growth rate for these industries from 6.9 per cent in 2001 to 1.9 per cent in 2002. The chemical industries



© AfDB/OECD 2004

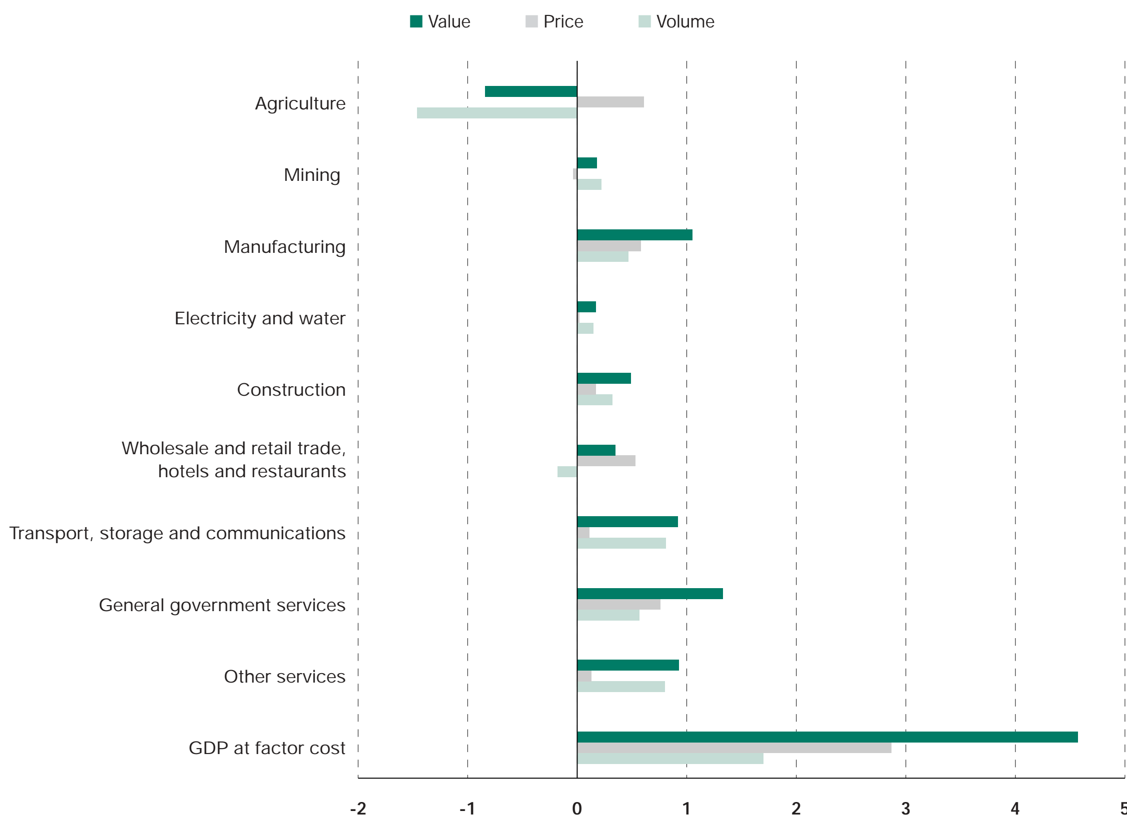
OECD Browse_it Edition • Lecture seule • A n O ... Read Only

## Figure 3 - GDP by Sector in 2002




**Source:** Authors' estimates based on budget data.

## Figure 4 - Sectoral Contribution to GDP Growth in 2002




**Source:** Authors' estimates based on budget data.

sector and the construction materials, ceramics and glass industries recorded higher growth rates than the manufacturing sector as a whole (3.5 per cent and 4 per cent respectively in 2002, as against 2.5 per cent and 4.5 per cent in 2001). This was also the case for miscellaneous manufacturing industries, although this sector slowed by two percentage points (4 per cent in 2002 as against 6 per cent in 2001). The activity of the mechanical engineering and electrical industries and the textile, clothing and leather sector fell off sharply, with growth rates that fell from 14 per cent and 12 per cent respectively in 2001 to 3.5 per cent and 0.5 per cent. Lastly, food industry output fell by 0.5 per cent in real terms in 2002, owing to poor agricultural conditions.



© AfDB/OECD 2004 

OECD Browse_it Edition • For Read Only • Lecture seule

Growth in manufacturing industry is expected to show a slight pickup in 2003, rising to about 2.9 per cent, and to accelerate further in 2004 to 6.1 per cent.

In the market services sector, activities relating to transport, tourism, domestic trade, communications and financial services showed a slowdown in growth, which stood at 4 per cent in 2002 after having reached 6.8 per cent in 2001. This decline was partly due to the trend in the transport sector, where value added decreased by 3.8 per cent in 2002 after a growth of 4 per cent in 2001, reflecting the impact of the climate for tourism and international trade on the sea and air transport sectors. For the upcoming period, and since the founding in 2002 of the new charter airline Air Carthage, the Tunisian authorities are planning to promote private investment in the transport sector, in order to control costs in the sector and simultaneously raise service quality.

The slower growth of commercial services can also be attributed to the performance of the tourism sector, which is very important to the Tunisian economy by virtue of its direct and indirect impact on economic growth, employment and external balances. This sector was hard hit by the consequences of the events of 11 September 2001 and the terrorist attack on the island of Djerba in April 2002, and saw its value added fall by 4.5 per cent in 2002, as against a growth of 2.5 per cent in 2001. The number of tourists dropped by 6 per cent and bed-nights of non-residents by 21.5 per cent.



The effect of this drop on overall sector performance was somewhat offset by the significant increase in bed-nights of Tunisian residents (12.6 per cent in 2002, as against 3.2 per cent in 2001). In addition, measures to step up promotional and marketing efforts to ease hotels' indebtedness to the banking system and to increase the potential capacity of airlines all helped to soften the impact of these events on the sector.

In 2003, value added in services grew by about 5.2 per cent, reflecting a pickup in tourist activity and in the transport and telecommunications sectors, with real growth of 2.5 per cent and 9.6 per cent respectively. The Tunisian authorities are expecting even stronger growth in services in 2004, perhaps as high as 7.8 per cent. Lastly, non-market services showed a 2002 growth rate of about 4.7 per cent, about the same as in 2001, and are expected to grow by 3.8 per cent in 2003 and 2004.

Domestic demand fell off considerably, from a growth of 5.3 per cent in 2001 to 1.5 per cent in 2002. This slowdown was mainly due to the 2.7 per cent decline in investment in 2002, as compared to a 4.1 per cent increase in 2001. Thus the investment rate dropped by more than two percentage points between 2001 and 2002, from 28.1 per cent to 25.8 per cent of GDP. In 2003, despite the better economic climate, the investment rate fell further to approximately 23.3 per cent of GDP. The Tunisian authorities expect it to climb back to 24 per cent in 2004.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **24.7** | **27.3** | **28.1** | **25.8** | **23.3** | **24.0** | **23.7** |
| Public | 4.4 | 4.4 | 4.9 | 4.4 | 4.1 | 4.3 | 4.6 |
| Private | 20.3 | 22.9 | 23.2 | 21.4 | 19.2 | 19.6 | 19.1 |
| **Consumption** | **79.2** | **76.3** | **76.5** | **78.6** | **75.7** | **76.9** | **78.2** |
| Public | 16.3 | 15.6 | 15.6 | 16.3 | 16.1 | 16.0 | 15.9 |
| Private | 62.9 | 60.7 | 60.9 | 62.3 | 59.6 | 60.9 | 62.3 |
| **External sector** | **-3.9** | **-3.6** | **-4.6** | **-4.5** | **0.9** | **-0.9** | **-1.9** |
| Exports | 44.9 | 44.5 | 47.7 | 44.3 | 48.2 | 47.7 | 48.3 |
| Imports | -48.8 | -48.2 | -52.2 | -48.7 | -47.3 | -48.6 | -50.2 |

**Source:** Domestic authorities' data; projections based on authors' calculations.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule



## Macroeconomic Policy

### *Fiscal and Monetary Policy*

To keep its budget under control and maintain macroeconomic stability, the Tunisian government in 2002 adopted a supplementary budget bill to adjust public revenue and spending to the slowdown in economic activity. The bill reduced the budget figures for both revenue and expenditure, to take account of the fact that receipts from indirect taxes were lower than the government's initial forecasts (due in particular to the fall off in imports) and to contain spending by deferring certain investments.

In this context, budgetary revenue (excluding borrowing) stood at 7 806.5 million dinars ($5.5 billion) in 2002, up 710.9 million dinars ($500 million) with respect to its level in 2001, and amounting to nearly 26 per cent of GDP.

Tax revenue rose by 3.2 per cent in 2002 to 6 423.4 million dinars ($4.5 billion), as a result of an increase in tax takings on the domestic market and a related drop in receipts from import taxes, as imports of goods declined by 1.1 per cent. Once these changes were taken into account, the tax ratio stood at 21.4 per cent or approximately the same level as in 2001.

Lastly, non-tax revenue, excluding oil revenue, grew at the substantial rate of 56 per cent to reach 1 313.6 million dinars ($920 million) in 2002. This increase was largely due to income from privatisation, which amounted to 339 million dinars ($240 million), exceeding the forecast figure of 50 million dinars ($35 million), and to shareholdings and profits paid into the central government budget, which rose from 224 million dinars ($160 million) in 2001 to 377 million dinars ($260 million) in 2002.

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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[a] | **30.3** | **25.4** | **24.6** | **25.8** | **24.8** | **25.1** | **25.4** |
| Tax revenue | 25.0 | 21.3 | 21.6 | 21.4 | 20.9 | 21.3 | 21.6 |
| Grants | 0.3 | 0.1 | 0.3 | 0.4 | 0.2 | 0.2 | 0.2 |
| **Total expenditure and net lending**[a] | **34.4** | **27.9** | **28.1** | **27.7** | **26.9** | **26.9** | **27.2** |
| Current expenditure | 27.2 | 19.9 | 19.4 | 19.9 | 19.4 | 19.1 | 19.0 |
| *Excluding interest* | *23.2* | *16.6* | *16.3* | *16.9* | *16.6* | *16.5* | *16.4* |
| Wages and salaries | 10.4 | 11.6 | 11.9 | 12.1 | 12.0 | 11.8 | 11.7 |
| Interest | 4.0 | 3.3 | 3.1 | 3.0 | 2.9 | 2.7 | 2.5 |
| Capital expenditure | 6.5 | 7.4 | 8.1 | 7.4 | 7.0 | 7.3 | 7.8 |
| **Primary balance** | **-0.1** | **0.9** | **-0.4** | **1.1** | **0.8** | **0.9** | **0.7** |
| **Overall balance** | **-4.1** | **-2.4** | **-3.5** | **-1.9** | **-2.1** | **-1.8** | **-1.8** |

a. Only major items are reported.
**Source:** Domestic authorities' data; projections based on authors' calculations.

Budget expenditures rose by 3.8 per cent in 2002, as compared to 7.5 per cent in 2001, reflecting efforts to control the fiscal and external deficits while sparing the social sectors. These efforts held growth in current expenditure to 5.4 per cent in 2002, as against 6.4 per cent in 2001, and, more significantly, slowed the growth in direct public investment to 3.4 per cent in 2002, compared to 6.2 per cent in 2001.

These budget policies resulted in an overall fiscal deficit of only 1.9 per cent of GDP in 2002, as against 3.5 per cent in 2001. For the second consecutive year, the deficit was wholly financed by external borrowing. In 2003, the continuation of this cautious budget policy enabled Tunisia to hold the fiscal deficit to a similar level (estimated at 2.1 per cent of GDP), which is very close to the target laid down in the 2003 budget appropriation act. The budget bill for 2004 continues along the same lines, and should make it possible to cut the deficit to 1.8 per cent of GDP in 2004.



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

For more than a decade now, the Tunisian government has been following a monetary policy aimed at containing the growth in monetary aggregates within limits that allow control of inflation and a measure of stability in the real exchange rate, while trying to ensure that sufficient financing is available for an economy in the throes of restructuring.

The monetary policy followed in 2002 and 2003, under difficult economic conditions, was in keeping with this outlook. It was characterised by a slowdown in the growth of the money supply that, broadly speaking, reflected moderate growth in credit, an upturn in net external receivables and a contraction in central government debt. As a result, the liquidity ratio of the economy was relatively stable in 2002 and 2003. The growth in M3 fell to 5.1 per cent in 2002, as against 11.3 per cent in 2001. This slowdown can be observed in virtually all the components of the money supply, with slower growth of M2 and of the rate of increase in the stock of bonds issued by the financial system. In 2003, M3 grew at the somewhat faster rate of 6.5 per cent, owing to the improvement in economic conditions.

However, deposits in home ownership savings plans grew by 22.7 per cent in 2002, compared to 9.7 per cent at year-end 2001, as a result of the favourable terms offered by banks to encourage this type of saving. One bank also introduced a new savings scheme. The growth in home ownership savings plans should fall back to 8 .2 per cent in 2003.

Analysis of money supply counterparts in 2002 and 2003 shows that net external receivables increased by 302 million dinars ($210 million) in 2002 and that this increase continued in 2003 (+41 million dinars). Net claims on the state were down in 2002 (-80 million dinars or -$60 million), primarily because of a decline in the total amount of treasury bills held by the financial system; this decline continued in 2003 (-388 million dinars). Credit rose by 1 044 million dinars ($740 million) in 2002, and again by 1 067 million dinars in 2003.

This monetary policy, combined with increased efficiency in public spending, allowed the Tunisian government to hold inflation to 2.7 per cent in 2002, a rate comparable to that of 2001 (2.8 per cent). The recent trend is towards consolidation of this progress: inflation is estimated at 2.5 per cent for 2003 and is predicted to fall to 2.4 per cent in 2004 and 2005.

Where the exchange rate is concerned, the dinar fell against the euro and appreciated against the dollar in 2002 and 2003, the main explanation being roughly the euro's recovery on the international currency markets. In annual average terms, the dinar depreciated by 4 per cent with respect to the euro in 2002 and by 7.9 per cent in 2003, and rose against the dollar by 1.3 per cent in 2002 and 10.6 per cent in 2003.

## External Position

Tunisia has made a commitment to trade liberalisation. The association agreement signed with the European Union in 1995, which came into effect in 1998, provides for the complete dismantling of customs barriers between the two economies by 2010, where manufactured goods are concerned. This process is well under way, as 55 per cent of the planned tariff reductions had already been implemented as of July 2003. Moreover, the budget bill for 2004 provides for simplification of the customs system through reduction of the number of tariffs from 54 to 17 and the harmonisation of most-favoured-nation customs duties with the (lower) duties in effect under the association agreement with the European Union. Efforts still need to be made, however, to simplify technical inspections and customs procedures.

Under its 9th national plan (1997-2001), Tunisia enjoyed annual average export growth of nearly 6 per cent, and its economy diversified to such an extent that today manufactured goods account for over 85 per cent of exports, although the improvement in its price and non-price competitiveness is considered to be insufficient. Economic openness (measured as the ratio of exports plus imports to GDP) increased to an average of 94.5 per cent over the 2000-2002 period, as against 89.3 per cent during the 1990s, making Tunisia one of the most open economies in the region. Exports are still highly concentrated on a few European countries,



 © AfDB/OECD 2004

OECD Browse_it Edition • Read Only • An OECD Lecture seule


despite a sustained effort at geographical diversification reflected in a free trade agreement signed with Egypt, Morocco and Jordan in 2002 and initiatives with respect to certain Asian, North American and Latin American countries.

In 2002, the economy's external situation was strongly marked by international economic conditions and the continued drought.

Despite this difficult economic context, the balance of payments showed a surplus of nearly 199 million dinars ($140 million) in 2002. The current account deficit fell to 1 066.1 million dinars ($750 million), or 3.5 per cent of GDP. This improvement in the current account was mainly due to the drop in capital goods imports (-7.7 per cent), reflecting the downward trend in investment, which offset the increase in food imports (+21.3 per cent) due to the continued drought. The current account is expected to remain stable in 2003 as a proportion of GDP, followed by a slide in 2004 and 2005 as imports increase owing to the predicted recovery in the investment ratio.

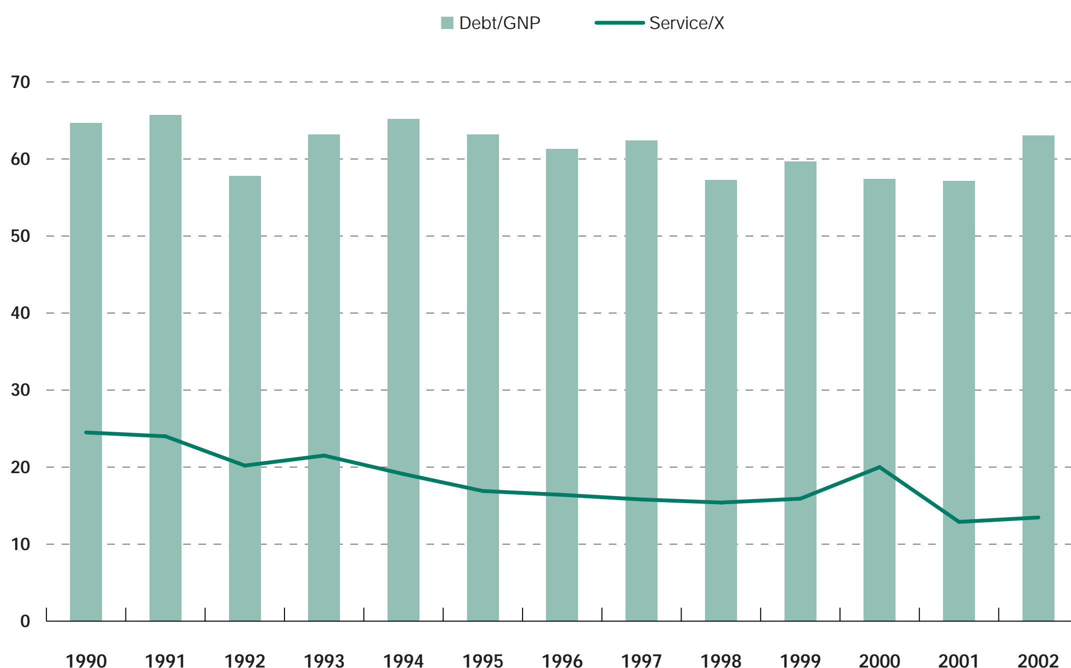
Moreover, the balance of current transfers increased in 2002 by 14.5 per cent, offsetting the substantial 12.8 per

Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -11.0 | -11.6 | -11.8 | -10.0 | -10.6 | -12.3 | -13.2 |
| Exports of goods (f.o.b.) | 30.3 | 30.0 | 33.1 | 32.4 | 30.7 | 30.0 | 30.5 |
| Imports of goods (f.o.b.) | -41.4 | -41.6 | -45.0 | -42.5 | -41.2 | -42.3 | -43.7 |
| Services | 7.7 | 8.0 | 7.4 | 5.8 | | | |
| Factor income | | -0.9 | -0.2 | 0.3 | | | |
| Current transfers | -1.0 | 0.3 | 0.4 | 0.3 | | | |
| **Current account balance** | **-4.3** | **-4.2** | **-4.2** | **-3.5** | | | |

**Source:** Domestic authorities' data; projections based on authors' calculations.

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




**Source:** World Bank.



© AfDB/OECD 2004

cent drop in the services balance due to the impact of the international climate on the tourism and transport sectors.

The capital account showed a surplus of 1 264.8 million dinars ($890 million) as a result, among other things, of a substantial increase in direct investment, which showed a positive balance of 1 136.4 million dinars ($800 million). Foreign direct investment (FDI), which had dropped 34.5 per cent in 2001, surged 66.7 per cent in 2002 thanks to Orascom's payment of 328 million dinars ($230 million) for the first tranche of the second GSM mobile phone licence and the sale of the publicly held shares in *Union Internationale de Banques* (UIB) to the French bank Société Générale for an estimated 103 million dinars ($72.5 million).

The movements in all these components of the balance of payments in 2002 led to a slight increase (2.7 per cent) in Tunisia's external debt, which rose to 15 410 million dinars ($10.9 billion) from its 2001 level of 15 010 million dinars ($10.5 billion). As a result, indebtedness as a proportion of GNP rose by 5.8 percentage points (to 63 per cent of GNP) and the debt service ratio rose by 0.5 percentage points (to 13.4 per cent of goods and services exports).

Net foreign currency assets increased by 199.5 million dinars ($140 million) to 3 108.9 million dinars ($2189 million) at year-end 2002, or the equivalent of 2.5 months of imports, as against 2.3 months in 2001.

## Structural Issues

Despite its strong economic performance, Tunisia still faces a number of challenges for the future, as shown by the fall off in private investment as the country draws nearer to the date when its market will be completely open to European products. To meet these challenges, Tunisia is continuing its economic reforms, aided in this endeavour by the World Bank, the European Union and the African Development Bank, within the framework of a third economic competitiveness adjustment loan (ECAL III). The required reforms relate not only to the upgrading of private-sector firms, but also the modernisation of their structural environment and the institutional framework.

Tunisia's energy strategy takes account of the country's natural endowments and prospects for their development; the expected trend in demand, driven by economic growth and the rise in living standards; and regional and international developments in this sector.

With 85 per cent of its primary energy consumption in the form of fossil fuels, of which it has rather little, Tunisia is increasingly dependent on imports to meet its energy requirements. After nearly three decades in surplus, the energy balance has turned negative, running a deficit of about 1.4 million tonnes of oil equivalent (TOE) under the 10th economic development plan. To hold the deficit to this level while ensuring supply of the required quantities on the best possible terms, Tunisia has adopted a strategy with three main thrusts.

The first pillar of this strategy is the rebalancing of consumption to increase the proportion of gas and reduce that of oil, motivated by three factors having convergent effects: the gradual exhaustion of known oil reserves, the increase in the available supply of gas via gas pipelines that traverse the country, and the recent discoveries of gas deposits in southern Tunisia. In this respect, the 2.4 million TOE increase in fossil fuel production called for in the 10th development plan (30 million TOE compared to 27.6 under the 9th plan) will come entirely from the increase in natural gas, whose share in total fossil fuel production will rise, between the two plans, from 31 to 39 per cent. To consolidate this rebalancing, the Tunisian authorities are working to develop the gas market at both local and Mediterranean level, in order to create the conditions required for building infrastructure to transport gas from southern to northern Tunisia. The *Société Tunisienne d'Electricité et du Gaz* is contributing to this effort by expanding its gas transport network from the southern town of Gabès to supply the privately-owned power plant known as Radès II and to increase household consumption of natural gas (as a substitute for LPG). Households also



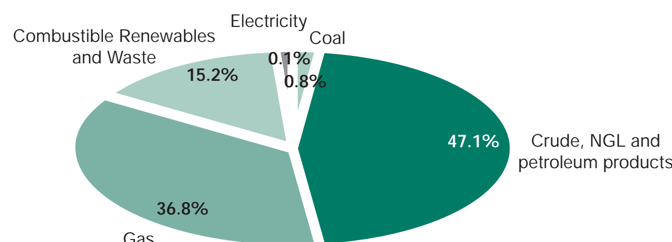


© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

OECD Browse_it Edition • Read Only • Lecture seule

Figure 6 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

enjoy a very large reduction on the cost of connection to the network, which now stands at 140 dinars (approximately $97) instead of the previous level of 500 dinars ($352). For the same reasons, the Tunisian and Italian governments have signed a partnership agreement reflecting their mutual interest in broadening the gas market (from the Tunisian standpoint) and obtaining a more secure supply of electrical power (from the Italian standpoint).

The second pillar of Tunisia's strategy is a better and more secure supply of energy. Where oil products are concerned, efforts under the 10th national plan will be directed to encouraging distribution companies to invest in storage of these products, especially LPG, to enable better coverage of peak consumption periods. Along the same lines, the plan provides for increasing the efficiency of supply by resolving the issue of how profit margins are to be shared among the players involved, by adjusting the specifications for businesses in this sector and by preparing to privatise the *Société Nationale de Distribution des Pétroles* (SNDP). Furthermore, foreign investors will be encouraged to develop refining and storage capacity for export products in the Skhira region. In the electrical power sector, the 10th plan calls for further opening of the power generating segment to private initiatives via the construction of a third power plant at Nakta, a 500 MW facility fired by gas from the Miskar gas field. Lastly, the plan calls for the consolidation of partnerships with neighbouring countries by increasing the capacity of the existing gas pipelines between Algeria and Tunisia from 24 billion cubic metres to 30 billion cubic metres annually, building a gas pipeline between Tunisia and Libya with a capacity of 2 billion cubic metres a year and another pipeline carrying 1.5 million tonnes of oil products a year, expanding Tunisia's connections with these countries' power grids and establishing a grid connection with Italy.

The third pillar of the energy strategy has two components: energy savings and renewable energy sources. Tunisia has obtained encouraging results in terms of controlling energy consumption: energy intensity fell throughout the last decade, from 0.437 under the 8th national plan to 0.425 under the 9th plan, and the intention is to cut it to 0.402 during the 10th plan. This decline reflects a shift towards a mode of economic growth that consumes less energy, particularly for transportation, where energy intensity has fallen by 1.4 per cent per year, and manufacturing industry, where it has fallen by an annual average of 1.2 per cent. As regards the development of renewable energy sources, the main thing to note is the government's recent call for expressions of interest in carrying out the first phase of a wind turbine project that is supposed to have capacity of 300 MW by 2011. This would raise the contribution of wind energy to Tunisia's electric power production from its current level of 0.1 per cent to 6 per cent.

The Tunisian government is continuing its efforts to quicken the upgrading of private-sector companies, particularly in the manufacturing sector, where firms are subject to heightened competition owing to the liberalisation of consumer goods imports (part of the fourth list of products to be liberalised under the association agreement with the European Union),



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

which is already under way. The number of firms that have entered the manufacturing sector upgrading programme had risen by year-end 2002 to 2 389 units, of which 1 349 had received approval of their applications from the Steering Committee, for investments of approximately 2 320 million dinars ($1.6 billion), and with state subsidies of 326.6 million dinars ($230 million).

To boost private investment, which must be done if Tunisia is to reach its targets for the growth and modernisation of the economy, it is necessary to improve the business environment, which requires a more transparent and predictable regulatory framework. It is also advisable to put all companies on an equal footing, whereas exporting companies currently enjoy tax advantages not available to firms serving the domestic market. These tax advantages have taken on greater importance owing to the extent to which protection of the domestic market has been rolled back, which creates distortions in the economic system.



The financial sector has already been subjected to an extensive reform package that enhanced its efficiency and its solidity. The liberalisation of interest rates was completed in 1996, and the deregulation of the banking market in 2001. The banking sector has been restructured, with recent developments including the privatisation of the *Union Internationale de Banques* and the rehabilitation of the development banks (which still need to be privatised, however). Oversight of the banking system was improved by the implementation of new prudential regulations in 1991, the creation of a central data storage system and improvement of the security of financial transactions in 2000, and better protection for depositors as from 2001. An upgrading programme for the banking sector has been initiated, aimed among other things at modernising the means of payment used. Consolidation of the financial system is still needed, however, to allow easier access to investment finance for private-sector firms and more efficient allocation of savings. Further progress is especially necessary as regards provision for non-performing loans, which undermine the balance sheets of public banks in particular.

## Political and Social Context

In 1987, Tunisia initiated a process of change that was supposed to be both comprehensive, encompassing the political, economic, social and cultural spheres, and gradual, in that reforms in all these spheres would systematically be implemented in a measured, step-by-step fashion.

With this approach in mind, and on the basis of a consensus illustrated by the signature of the National Pact, the government has been working to ensure a smooth political transition and make progress in democratising public affairs. These reforms have been given practical expression in a law providing for the organisation of political parties and a law on public financing of parties. Other actions undertaken under this framework include the creation of regional councils, the enlargement of their powers, the creation of local councils and the consolidation of the prerogatives of municipalities. This drive to rehabilitate institutions and strengthen the principle of citizens' equality before the law is also illustrated by progress in terms of judicial independence (abolition of the Court of State Security, the office of the *Procureur général de la République* [attorney-general], and special tribunals) and the protection of citizens against oppression on the part of government (introduction of the principle of the right of appeal to the Administrative Court and the Arbitration Board, of appeal from the administrative courts to the judicial courts, and the creation of the posts of "Administrative Mediator" and "Supervising Citizen").

Tunisia's approach to this matter is noteworthy for the position granted to women and their role in the development strategy. In this perspective, existing legislation was bolstered by amendments to the Personal Status Code, establishing the principles of equality before the law and of a more suitable balance between spouses in managing family matters; to the Criminal Code, introducing provisions to repress violence towards family members; to the Labour Code, consolidating the principle that there should be no gender discrimination; and to the Code of Nationality, giving Tunisian women married to non-Tunisians the right to pass on their nationality to their children.



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • An Read Only



There has also been enough political progress, as shown by the pluralistic presidential elections and the presence of the opposition in all representative bodies, that Tunisia should be in a position today to quicken the pace of its political transition. The next presidential and parliamentary elections, in late 2004, should be a propitious occasion for a further step forward in this transition.

Where the social sectors are concerned, a consensus seems to be emerging as to the strong socio-economic performance of Tunisia, as indicated by growth in per capita income, the significant decline in poverty, and improvements in living conditions, the quality of infrastructure, the environment, health and school enrolments. Tunisia's approach to social affairs, in keeping with its economic choices, is based on replacing the past conception of social protection, as a combination of welfare and measures to counteract the undesired consequences of adjustment, with an active social policy based on developing the individual capacities of those capable of pursuing an economic activity. This is the aim of Tunisia's education, vocational training and health policies, as well as programmes for population groups with special needs, such as the disabled and the elderly. This policy, which depends on a measure of national solidarity, has allowed Tunisia, with the help of a growing economy, to become one of the countries in which liberalisation and steadily increasing economic openness have been accompanied by tangible progress in all the social sectors and by substantial improvement in the living conditions of the population with respect to the pre-adjustment period.

The improvement in the socio-economic situation can be seen in the steady rise in available gross national income per capita and by the reduction in poverty: 4.2 per cent of the population was below the poverty line in 2000, as against 7.7 per cent in 1984. The Tunisian government has made employment one of its leading priorities and a preferred instrument in its strategy to combat poverty, marginalisation and social exclusion. With this in mind, it has made the impact on employment one of the main criteria for evaluating growth scenarios for the country, including sectoral policies. This policy has allowed Tunisia to increase the average number of jobs created annually from 40 000 in the late 1980s to 63 200 in 2002, despite a difficult economic environment, and to hold the unemployment rate to 14.9 per cent, as compared to 15.6 per cent in 2000. As unemployment is still very high, however, it will probably remain a central concern of the government, especially since in relative terms it is increasingly affecting young people and degree-holders.

Rapid growth and a distributional policy that spreads the benefits of this growth to all social categories have brought substantial improvements in the living conditions of the population as a whole, as shown by the following indicators:

- 78.2 per cent of households owned their own homes in 2002, and the proportion of makeshift housing dropped from 8.8 per cent in 1984 to about 1 per cent in 2002;
- the percentage of housing units connected to the electrical grid rose by nearly 32 percentage points (from 63.4 per cent in 1984 to 96 per cent in 2002), the percentage connected to the drinking water supply system by 26.5 percentage points (from 49.9 per cent in 1984 to 76.4 per cent in 2002) and the percentage connected to the sewerage system by 16.5 percentage points (from 51.5 per cent in 1984 to about 68 per cent in 2002);
- the proportion of households owning a car rose from 9.5 per cent in 1984 to 17.8 per cent in 2000. Considerable progress has also been observed for television sets (from 57.4 per cent of households in 1984 to 88.6 per cent in 2000), refrigerators (from 31.9 per cent in 1984 to 67.8 per cent in 2000) and telephones (from 6 per cent in 1984 to 31.9 per cent in 2000).

As regards public health, Tunisia's health system provides free or highly subsidised care to approximately 50 per cent of the population, and the social security system covers roughly 87 per cent of the working population, a level comparable to that of many higher-income countries.

The broadening of access to health services is reflected in the greatly increased number of basic health centres



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

(from 1 294 in 1986 to 2 028 in 2002), the growth in hospital capacity (32 regional hospitals and 18 teaching hospitals in 2002), the increase in medical personnel (one physician per 1 115 inhabitants in 2002, as compared to one physician per 2 438 inhabitants in 1985) and the fact that health services have been brought closer to beneficiaries (over 80 per cent of the population has access to a hospital or clinic less than 4 km from their place of residence).

Between the pre-adjustment to post-adjustment periods, this improvement in health services raised life expectancy at birth by more than five years (from 67.1 years in 1984 to 72.9 in 2002), reduced infant mortality from 51.4 per thousand in 1984 to 22.8 per thousand in 2001, increased the proportion of assisted childbirths from 56 per cent in 1984 to 90 per cent in 2001, and raised the proportion of children under five years old who are immunised against the six diseases targeted by the Expanded Programme on Immunisation to 96 per cent in 2001 (70 per cent in 1984).



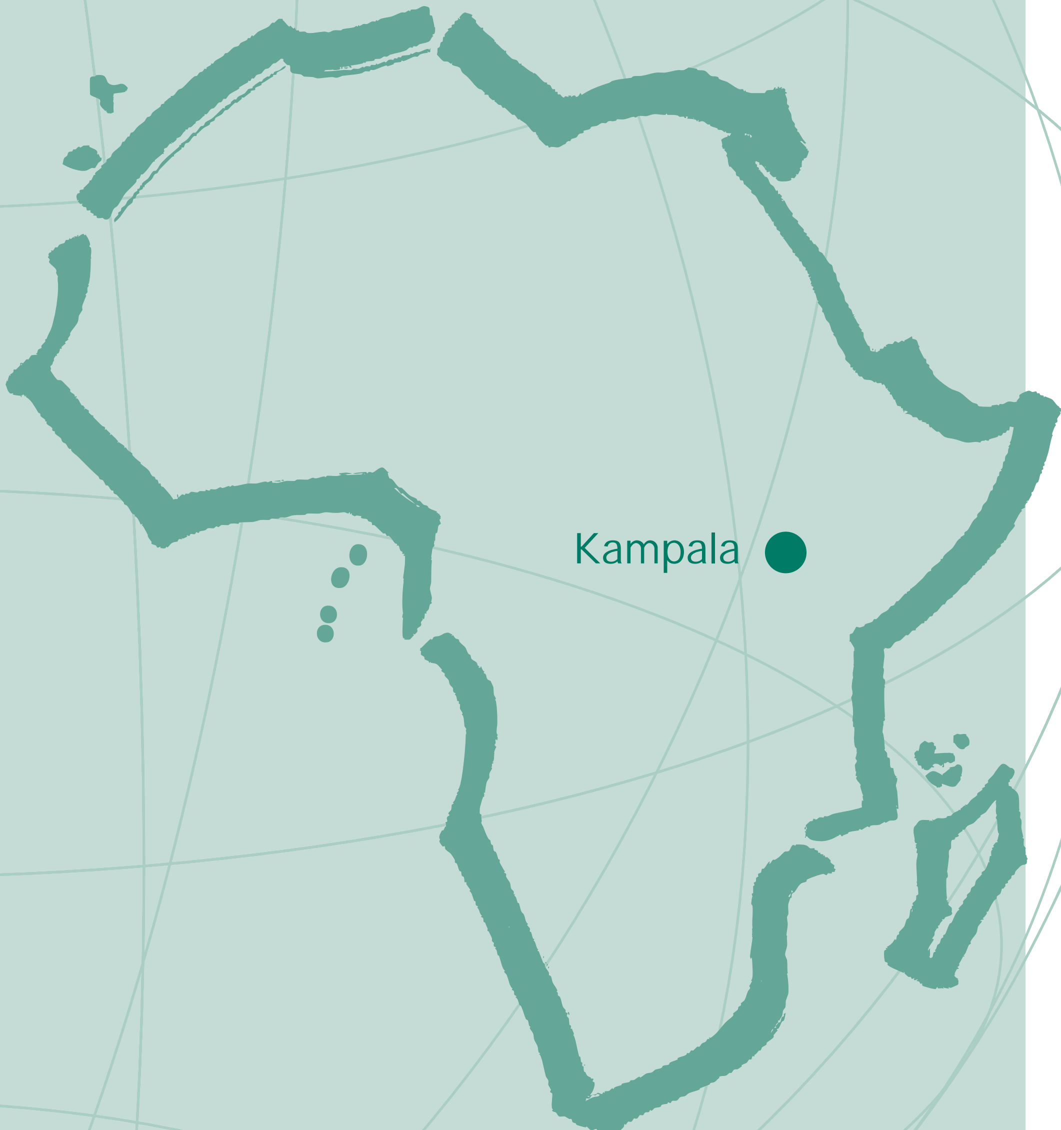
Lastly, the government's concern for education can be seen in the implementation of reforms aimed at instituting free compulsory schooling for all children up to the age of 16 and ensuring universal primary education, enhancing the image of vocational training so that it will cease to be considered a second-best solution for those who fail to get through the traditional education system and for their families, revising the content of secondary curricula and reviewing the tracks offered, and guiding scientific and technological research to give greater weight to the concerns of businesses and the priorities laid down in the development strategy.

This increased interest in education, a sector that absorbs 6.4 per cent of GDP, has not yet yielded all the hoped-for effects in terms of quality and internal rates of return. However, it has raised the enrolment rate for six-year-olds (from 92 per cent in 1984 to 99 per cent in 2002), increased the literacy rate of the 10 years and older age group by about 23 percentage points (from 53.6 per cent in 1984 to 76.7 per cent in 2002), boosted the secondary school enrolment rate by nearly 36 percentage points in 20 years (73.1 per cent overall and 76.5 per cent for girls in 2002, as against 37.5 per cent overall and 30.3 per cent for girls in 1984), reduced the dropout rate in primary education from 5.4 per cent in 1984 to 2 per cent in 2002 and to a lesser degree in secondary education (from 7.6 per cent in 1984 to 6.3 per cent in 2002), and lastly raised the enrolment rate in higher education from 5.7 per cent in 1984 (4 per cent for girls) to about 26.4 per cent in 2002 (29.5 per cent for girls).



© AfDB/OECD 2004

# Uganda




**key figures**

| | |
|---|---|
| • Land area, thousands of km² | 241 |
| • Population, thousands (2002) | 25 004 |
| • GDP per capita, $ (2001/2002) | 236 |
| • Life expectancy (2000-2005) | 46.2 |
| • Illiteracy rate (2001) | 31.2 |

An OECD Browse_it Edition • Read Only • Lecture seule

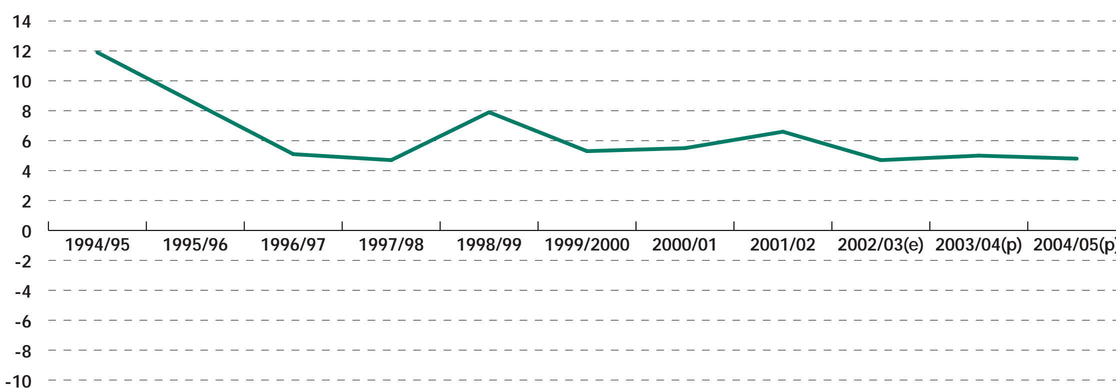
# Uganda

UGANDA IS MAINTAINING STRONG ECONOMIC performance, although economic growth now appears to have stabilised at a lower rate than seen in recent years. Real GDP growth hit 4.7 per cent in 2002/03, compared to an average growth of 6.9 per cent over the period 1994/95 - 2001/02, and is expected to remain around that level, at an estimated 5 per cent in 2003/04 and 4.8 per cent in 2004/05. Uganda's inability to replicate recent high-income growth could be attributed to a lack of significant expansion of agricultural output. The government follows a pro-market economic strategy. Improving domestic revenue mobilisation, coupled with the strong external aid support, and prudent expenditure management contributed to stability in fiscal performance; these successes are expected to be maintained in 2003/04 and 2004/05. However, maintaining confidence in the budgetary process may require the government to control supplementary budget appropriations. Prudent monetary management has also contributed to success in controlling inflation; the rate of inflation is expected to remain stable and low in 2003/04 and 2004/05. Volatility in interest rate movements and the exchange rate of the shilling are creating some instability in the financial markets

**Strong economic performance remains, although economic growth now appears to have stabilised at a lower rate than seen in recent years.**



Figure 1 - **Real GDP Growth**




**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

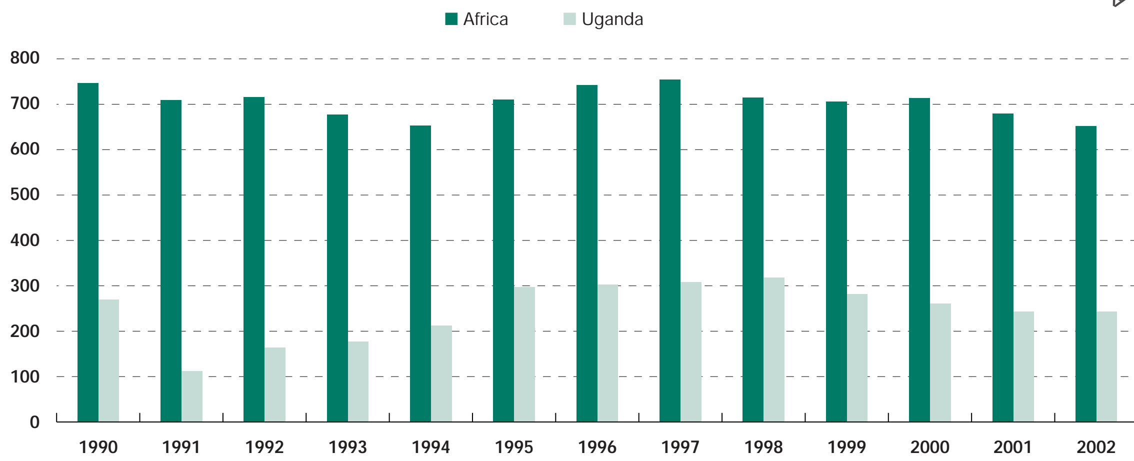
however. The external payments situation has improved as a result of a reduced current account deficit, which is expected to be maintained in 2003/04 and 2004/05. The improvement in the current account balance has contributed to rising external reserves. The current external debt situation would demonstrate the success of the enhanced HIPC initiative if some concern were not emerging about debt sustainability. The government is taking measures to transform the economy including efforts to attract private sector participation in the energy sector. However, progress in the privatisation programme remains rather slow. The political climate is stable, although it is still undermined by security problems related to cattle rustling, rebel activity in Northern Uganda and urban crime and terrorism. According to external sources, corruption is very high, but the government is taking measures to improve governance.

## Recent Economic Developments

Uganda's recent economic performance appears to have stabilised. The growth rate of real GDP began to slow down in 1999/2000, reaching 4.7 per cent in 2002/03, well below the annual growth target set in the country's Poverty Eradication Action Plan (PEAP).

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** IMF.

The lower growth recorded in 2002/03 was due in part to adverse weather conditions for the agricultural sector. In addition, economic growth in 2002/2003 was hampered by delays in the construction of the Bujagali hydro-electric project, the major infrastructural project that had been expected to boost economic activity during the year. Growth is expected to remain stable at an estimated 5 per cent in 2003/04 and projected at 4.8 per cent in 2004/05. The inability of the Ugandan economy to replicate the high growth rates of the recent past is probably due to the lack of expansion in the agricultural sector.



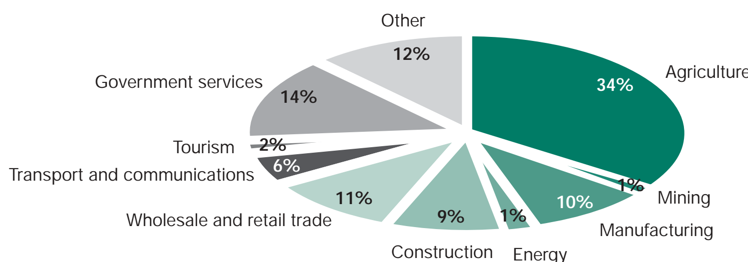
In 2002/03, the prolonged dry season, especially in the second half of the year, reduced the growth of the agricultural sector. Agriculture accounted for about 34 per cent of GDP in 2002/03, and increased by only 2.2 per cent, compared to an increase of 4.8 per cent in the preceding year. In particular, food crop production was much lower than in the previous year, increasing by just 0.5 per cent in 2002/03 following the drought and delayed rains in some parts of the country. The lower food crop output offset a strong growth in cash crop production, especially coffee and cotton production, which benefited from favourable weather in the central and eastern regions. Cash crop production registered a growth rate of 9 per cent in 2002/03 compared with 6.7 per cent in 2001/2002. Output from the other agricultural sub-sectors – livestock, fisheries and forestry – remained stable on the previous year's levels. Slow growth in agriculture during 2002/03 was a challenge to the government's Plan for the Modernisation of Agriculture and the Strategic Export Programme; this major programme was in its second year in 2002/03, and was expected to spearhead expansion in income growth. The government is revamping the programme, and in 2003/04 is restructuring the National Agricultural Research Organisation in an effort to enhance the participation of the private sector, local government structures and communities in research implementation.

Industrial activity in Uganda is underpinned by manufacturing, which contributed to about 10 per cent of GDP in 2002/03. Since recording its highest growth rate of 14.2 per cent in 1998/99, manufacturing activity has remained mixed. In 2002/03, manufacturing growth rate was 6.6 per cent, slightly above the 6.3 per cent recorded in the previous year. Trends in the manufacturing growth rate since 1998/99 indicate that informal sector manufacturing, which contributes about 30 per cent of total manufacturing value added, has had a lower growth rate, averaging about 4.7 per cent, while formal sector manufacturing has tended to fluctuate around a higher average. In 2002/03, the manufacturing of some consumables, such as edible oil and fats, wheat flour, sugar and soft drinks, saw improved production. On the other hand, other consumables such as beer, cigarettes and footwear, usually considered luxuries in times of economic hardship, saw reduced production, reflecting a


© AfDB/OECD 2004

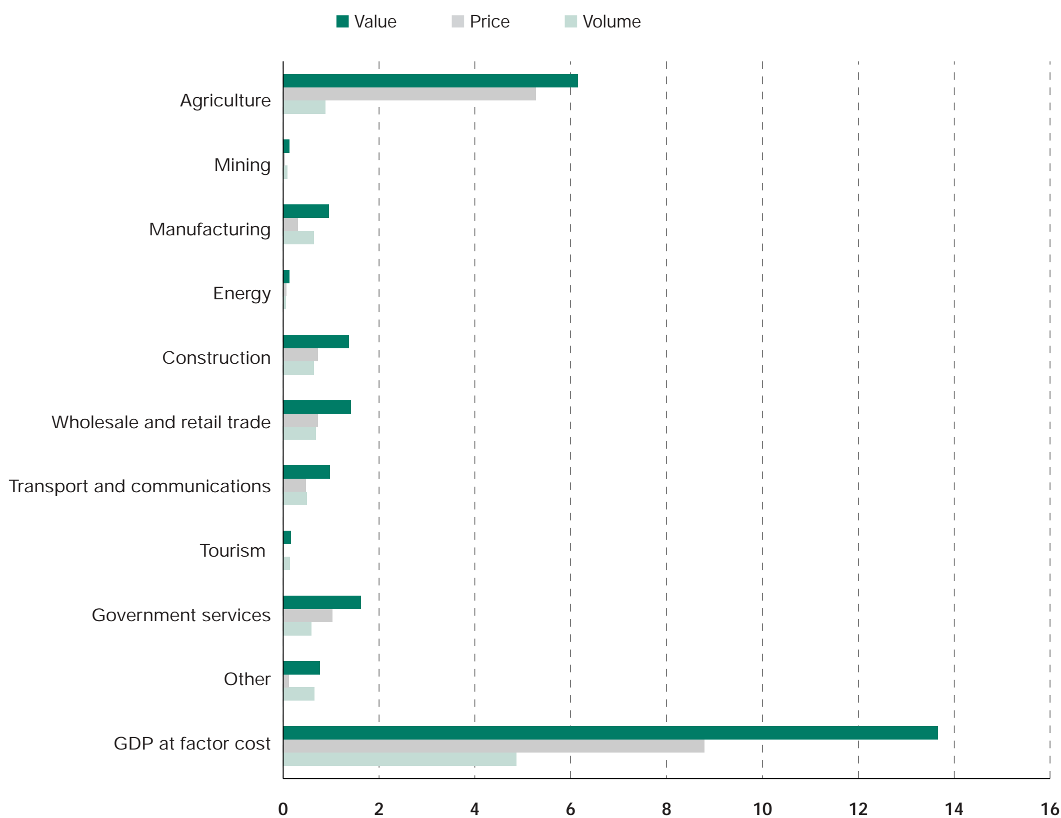
OECD Browse_it Edition • Read Only • Lecture seule • An OECD

Figure 3 - **GDP by Sector in 2002/2003**




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

Figure 4 - **Sectoral Contributions to GDP Growth in 2002/2003**




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

contraction in private consumption. The output of other products such as cement, clay bricks and tiles also increased in response to higher construction activity. Within the industrial sector, mining and quarrying achieved a significant growth rate of 11.5 per cent in 2002/03. Similarly, the construction sub-sector rose by 9.7 per cent in 2002/03 from 7.8 per cent in the preceding year. A rise in private construction of residential and commercial buildings lay behind the strong growth performance of both sub-sectors.

The government has put in place a number of initiatives to boost industrial production in 2003/04. In particular, several incentives were granted in 2003 to woo investors to industrial zones. These incentives included a ten-year corporate tax holiday; duty exemption on raw materials,

OECD Browse_it Edition • Read Only • Lecture seule

plant and machinery and other inputs; no export tax on goods exported; exemption of withholding tax on interest on external loans; and relief from double taxation for repatriated dividends.

In the service sector, transport and communication's services continue to grow at a robust rate. In 2002/03, the sub-sector expanded by 9.7 per cent. Growth in this sub-sector was mainly driven by expansion in the telecommunications sub-sector, which grew by 20.5 per cent. The telecommunications sub-sector, which is now fully privatised and liberalised, saw significant expansion particularly in mobile and public phone usage. The number of telephone subscribers in Uganda has risen by over 100 per cent, from 230 000 in 2000 to 500 000 in 2003.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995/96 | 1999 /2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **18.1** | **19.8** | **19.9** | **21.6** | **21.5** | **21.5** | **21.7** |
| Public | 6.3 | 6.4 | 6.3 | 6.7 | 5.4 | 5.4 | 5.4 |
| Private | 11.8 | 13.4 | 13.6 | 14.8 | 16.1 | 16.1 | 16.3 |
| **Consumption** | **97.8** | **93.6** | **94.2** | **93.9** | **94.1** | **94.1** | **93.3** |
| Public | 11.3 | 13.7 | 14.0 | 14.8 | 15.5 | 15.5 | 15.2 |
| Private | 86.6 | 79.9 | 80.2 | 79.1 | 78.6 | 78.6 | 78.0 |
| **External sector** | **-15.9** | **-13.4** | **-14.2** | **-15.4** | **-15.6** | **-15.6** | **-15.0** |
| Exports | 13.2 | 10.5 | 11.3 | 11.4 | 13.6 | 13.6 | 14.3 |
| Imports | -29.1 | -24.0 | -25.4 | -26.8 | -29.2 | -29.2 | -29.3 |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.



The Ugandan economy has maintained a structure of demand, characterised by relatively high consumption, especially private consumption. In 2002/03, consumption levels remained at a relatively high share of GDP, due to a slight increase in public consumption. The level of investment in 2002/03 exceeded 20 per cent due to the high inflows of foreign savings. It is anticipated that capital formation will continue to remain relatively high in 2003/04 and 2004/05.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Uganda is pursuing a relatively tight fiscal policy that aims to underpin private sector development. Within the government's overall economic policy objective of promoting rapid, broad-based and sustainable economic growth, fiscal policy is geared to ensure that the private sector is not crowded out of key domestic markets by excessive demand from the public sector. The government's medium-term fiscal strategy entails a gradual reduction in the fiscal deficit. This is intended to reduce the amount of liquidity needed to finance the fiscal operations, and thereby ease the pressure on domestic financial markets.

In 2002/03, the government made considerable headway in reducing the budget deficit. The overall deficit was equivalent to 3.3 per cent of GDP, compared with 4.5 per cent of GDP in the preceding year. Efforts to enhance revenue mobilisation and expenditure control are expected to lead to near stability in the fiscal outcome in 2003/04 and 2004/05. The overall fiscal deficit is estimated at 3.5 per cent of GDP in 2003/04 and projected to fall to 3.2 per cent of GDP in 2004/05.

In 2002/03, tax revenues increased to 11.9 per cent of GDP compared to 10.8 per cent of GDP in 2001/02. The government is determined to maintain the mobilisation of domestic resources for funding the budget. In the 2003/04 budget, additional tax measures and improvements in tax administration were announced, which are expected to increase tax revenue



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • A Lecture seule



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

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| **Total Revenue and grants**[b] | **15.7** | **17.1** | **18.4** | **18.5** | **19.7** | **19.8** | **19.6** |
| Tax revenue | 10.6 | 10.4 | 10.2 | 10.8 | 11.9 | 12.1 | 12.1 |
| Grants | 4.5 | 5.8 | 7.6 | 6.8 | 7.1 | 7.0 | 6.8 |
| **Total expenditure and net lending**[b] | **17.8** | **24.1** | **20.0** | **22.9** | **23.0** | **23.3** | **22.8** |
| Current expenditure | 21.9 | 23.7 | 25.6 | 27.8 | 15.4 | 13.5 | 13.2 |
| *Excluding interest* | *20.9* | *22.6* | *24.3* | *26.3* | *13.8* | *11.6* | *11.4* |
| Wages and salaries | 3.0 | 4.2 | 4.3 | 5.1 | 5.3 | 5.1 | 5.0 |
| Interest | 1.1 | 1.1 | 1.2 | 1.4 | 1.6 | 1.9 | 1.7 |
| Capital expenditure | 7.7 | 8.8 | 9.0 | 9.5 | 9.9 | 9.8 | 9.9 |
| **Primary balance** | **-1.0** | **-6.0** | **-0.4** | **-3.1** | **-1.7** | **-1.6** | **-1.5** |
| **Overall balance** | **-2.0** | **-7.0** | **-1.7** | **-4.5** | **-3.3** | **-3.5** | **-3.2** |

a. Fiscal year begins 1 June.
b. Only major items are reported.
**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

to 12.1 per cent of GDP. The fiscal operations continue nevertheless to depend heavily on donor assistance, with grants accounting for 36 per cent of total revenue in 2002/03, a proportion that will only marginally decline in 2003/04 and 2004/05.

Government expenditure was maintained at about 23 per cent of GDP in 2002/03. However, expenditure in 2002/03 varied considerably across sectors, with some sectors consistently diverging above target at the expense of others. In particular, defence expenditure significantly exceeded the budget, motivated by the continued instability in the north, according to the government. Other sectors that exceeded their budget allocations included water and public administration. The situation created budgetary pressures met by the reallocation of resources. This reallocation created a situation of uncertainty and thus impaired the capacity of other ministries, including agriculture, education, health, law and order, to deliver services, and weakened their Commitment Control System. However, core priority areas of the budget, notably the Poverty Action Fund (PAF), were protected from budget cuts. Such reallocation, however, has the adverse effect of undermining confidence in the budget process among the various stakeholders, not least the donors whose contributions are crucial. The Public Finance and Accountability Act 2003, which was passed by parliament in July 2003, may limit the incidence of supplementary expenditure, by requiring parliamentary approval prior to the release of any supplementary funds.

Monetary policy is focused on achieving domestic price level stability. In financial year 2002/03, monetary management faced two main challenges: first, how to sterilise adequately domestic money creation arising from donor-funded government expenditure; and, second, how to contain inflationary pressures following a rebound in food prices caused by the lower food crop production. In an effort to improve liquidity management, the Bank of Uganda (BOU) changed the modalities for the operations of the Repurchase Agreements (REPOs) market from being administratively determined by the Bank to a market-determined rate auction. Under the new arrangement, the BOU announces the maturity desired to transact and the volume. In the year to June 2003, broad money supply (M3) grew by 23.9 per cent compared with 11.3 per cent the preceding year. Net claims on the central government declined by 18.7 per cent, after having risen earlier in the year owing to delayed disbursement of some programmed donor inflows. Private sector credit growth was also strong at 25.7 per cent in the year to June 2003, compared to 16 per cent between 1999/2000 and 2001/02. In 2002/03, improvements in loan recoveries contributed to increase lending to the private sector. In spite of this sharp increase, it remains a major concern that the financial system is not

OECD Browse_it Edition • Lecture seule • Read Only

meeting the needs of vital areas in the private sector for poverty reduction. Trade and other sectors catering mainly to importers continue to be the major recipients of credit within the private sector, while lending to agriculture, where the bulk of the population earn a living, remains rather low.

The monetary authorities have achieved some success in controlling inflation. The underlying inflation, which excluded food crop prices, has remained relatively stable, recording 2.9 per cent in 2002/03, below the annual average of 4 per cent over the 1998/99-2001/02 period. However, in 2002/03, the annual average rate of inflation rose significantly to reach 8.4 per cent, from -2 per cent in the previous year. The rate of inflation is expected to revert to historically lower rates, at an estimated 4.7 per cent in 2003/04 and 4.5 per cent in 2004/05, as the difficult food situation experienced in 2002/03 subsides.

Movement in the foreign exchange rate of the shilling and domestic interest rates continue to demonstrate the instability of Uganda's financial markets. On the foreign exchange market, the shilling depreciated by about 10.3 per cent between April 2002 and April 2003, compared with 1.04 per cent during the same period the year before. The pressure on the shilling during 2002/03 was due to speculation at the height of the Iraq war and the perceived possibility that Uganda would not receive programmed World Bank Poverty Reduction Support Credit. These factors, coupled with sporadic increases in petroleum prices, compelled dealers to speculate on further depreciation of the shilling. Since April 2003, relative calm has been restored in the foreign exchange market. The depreciation in the nominal effective exchange rate during 2002/03 drove depreciation in the real effective exchange rate by 6.6 per cent by February 2003, compared with an appreciation of 2.5 per cent over the same period during the previous year. Reflecting underlying movements in the exchange rate, in June 2003 the rate on the benchmark 91-day Treasury bill rose significantly to reach 14.5 per cent compared with 5.4 per cent in June 2002. In line with the increasing rate on the Treasury bill, commercial banks increased their prime lending rates in 2002/03.



## External Position

Uganda maintains its policy of liberalised external trade. The government remains committed to further trade liberalisation in the context of the World Trade Organisation (WTO). Uganda is also committed to the process of regional integration as a major strategy for widening its markets, enhancing investment opportunities and strengthening its bargaining power in the international market. The East African Community (EAC) is the focal point of this regional integration process. Uganda, Tanzania and Kenya signed the protocol establishing the East African Community Customs Union on 2 March 2004. However, considerable differences remain between the member states on the customs union. Regarding the Common External Tariff (CET), Uganda unilaterally decided to adopt a 20 per cent rate for finished goods, while Kenya and Tanzania stuck with the more protectionist 25 per cent. Originally, the member states had proposed a 0-10-25 CET tax regime, with the zero rate applying to raw materials, 10 per cent to intermediate goods and finished goods being taxed at 25 per cent. The member states also agreed that while trade between Uganda and Tanzania will become fully liberalised with the realisation of the customs union, a surcharge will be applied on a specific list of products from Kenya owing to its generally more advanced industrial base. Uganda is also seeking to become a full and active member of the bigger trading bloc COMESA, where it has yet to join the Free Trade Area of zero tariffs on goods produced in member countries.

Uganda has a low export base hinged on a few traditional commodities: coffee, cotton and tea. The government is aiming to expand and diversify the export base through a Strategic Export Programme (SEP), which is providing strategic intervention in support of expanding traditional exports and non-traditional exports, such as horticulture, livestock and fish.

The external position of the country has remained relatively stable because of some improvement in exports and a recent turn around in the terms of trade in favour of Uganda. In 2002/03, the current account deficit declined to an estimated 5.8 per cent of GDP with a



© AfDB/OECD 2004

OECD Browse_it Edition • An OECD Read Only Lecture Edition •


contraction in the commodity trade deficit. The relative stability in the current account in view of capital inflows has enabled external reserves to increase to the equivalent of 5.8 months of imports of goods and services at end-2003. In 2002/03, the total value of commodity exports rose substantially by about 14.9 per cent to represent 9.3 per cent of GDP. The gain in the value of exports was due essentially to a recovery in world prices of Uganda's exports. Earnings from coffee exports increased by nearly 28 per cent as a result of an almost 26 per cent increase in price and a 1.6 per cent increase in volume. Non-coffee export earnings also increased by about 12 per cent. Notable increases in non-coffee exports earnings were registered in tobacco, which increased by 58 per cent due to increased export volumes. Fish export earnings increased by about 12 per cent because of improved average unit price. Tea exports also increased due to increased volumes and prices. On the negative side, up to June 2003, Uganda faced a decline in the international price of cobalt, which was so severe Kasese Cobalt Company Limited of Uganda suspended exports of its product. Imports of goods increased in 2002/2003 to 18.4 per cent of GDP from 18.2 per cent of GDP the year before. The outlook on the external payments is further contraction of the trade deficit, which may help improve the current account balance. The trade deficit is estimated to fall to 8.8 per cent of GDP in 2003/04 and further to 8.3 per cent of GDP in 2004/05. This outcome depends on improvements in exports, as the level of import remains stable.

Table 3 - **Current Account** (percentage of GDP)

| | 1995/96 | 1999/2000 | 2000/01 | 2001/02 | 2002/03(e) | 2003/04(p) | 2004/05(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -11.4 | -8.9 | -9.2 | -10.2 | -9.1 | -8.8 | -8.3 |
| Exports of goods (f.o.b.) | 10.7 | 7.7 | 7.8 | 8.0 | 9.3 | 10.0 | 10.5 |
| Imports of goods (f.o.b.) | -22.2 | -16.6 | -17.0 | -18.2 | -18.4 | -18.8 | -18.8 |
| Services | -4.3 | -4.0 | -4.4 | -5.6 | -5.6 | | |
| Factor income | -0.8 | -2.2 | -2.3 | -2.2 | -2.4 | | |
| Current transfers | 14.2 | 8.1 | 8.8 | 11.2 | 11.4 | | |
| **Current account balance** | **-2.3** | **-7.0** | **-7.1** | **-6.8** | **-5.8** | | |

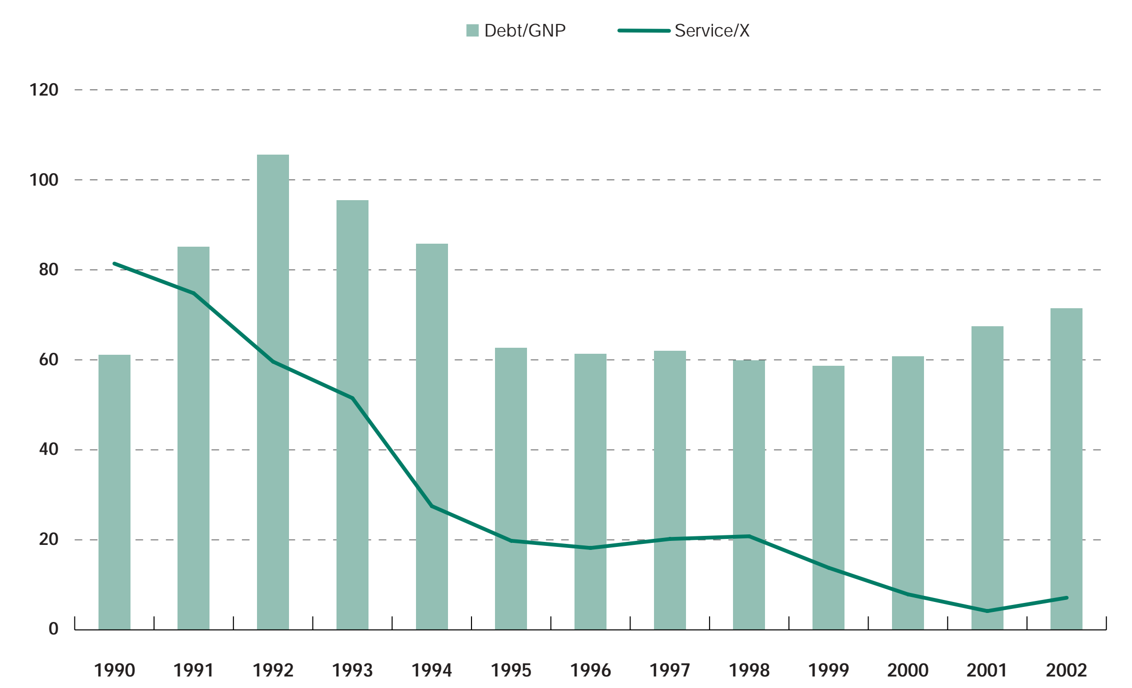
**Source:** IMF and domestic authorities' data; projections based on authors' calculations.



The total external debt of Uganda at the end of 2002 stood at $3.90 billion. The country's external debt situation so far demonstrates the advantages of the enhanced HIPC initiative. Over the years, from 1998 to 2002, total HIPC debt service relief per annum has almost doubled from $45 million to $88 million. This has reflected a corresponding fall in the debt burden as indicated by the fall in total debt service to exports from 16 per cent in 1998 to 8 per cent in 2002. This ratio is expected to remain well below the indicative HIPC target range of 15-20 per cent over the near future. Nonetheless, other indicators of the debt burden have remained high raising some concerns about the sustainability of the debt. The ratio of the debt stock to GNP has continued to rise from 61.9 per cent in 1998 to about 69.5 per cent in 2002. A study by the Uganda Government and the Macroeconomic and Financial Institute of Eastern and Southern Africa (MEFMI) has indicated that the net present value of Uganda's debt to exports in 2002 was 185.5 per cent, which was again higher than the threshold value of 150 per cent used under the HIPC initiative to classify countries external debt position as sustainable. The major causes of the current debt sustainability issue are the inability of exports earnings to rise substantially, and the non-delivery of HIPC debt relief by some non-Paris Club creditors. The government has made some progress in obtaining debt relief from India and securing agreements of HIPC assistance by the OPEC Fund. Additionally, Pakistan, Libya and South Korea have recently pledged to provide relief on official debt. The government is hoping to derive debt relief from Japan, following the announcement that, by the end of 2003, Japan will revise its laws to allow full debt forgiveness. On the other hand, commercial creditors have won litigations against the government to recover claims of

OECD Browse_it Edition • Read Only • Lecture seule

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




**Source:** World Bank.



$40 million. To improve debt management, the government has developed a plan for computerising and linking the debt database systems of the Ministry of Finance and the BOU to allow greater co-ordination in debt monitoring and analysis.

## Structural Issues

The Ugandan government has set as its highest priority in the medium term the transformation of the economy through expansion of production, diversification, quality control, and value addition to its products for both domestic consumption and for exports. Towards this end, the government is implementing further reforms through the *Medium Term Competitiveness Strategy for the Private Sector (MTCS) (2000-2005).* The government is focusing attention on the elimination of barriers to private sector growth and to increasing the efficiency of investment in the economy. The MTCS also focuses on infrastructural provision, the strengthening of the financial sector, strengthening of commercial justice, institutional reforms to promote business growth, improvement of the business environment for micro and small enterprises, and promotion of measures to enhance exports. The government is taking steps to harmonise incentives granted in order to attract and expand private sector investment activity. In 2003, in addition to incentives aimed at attracting investors into industrial production, the government granted investment incentives to some selected investors. To ensure that these investment incentives meet their objectives, the government requested periodic accounting of the allocated funds. The policy of the government, however, is to phase out all ad hoc incentives and to move to a more harmonised system of incentives within the framework of the EAC.

The Energy Sector is one of the key sectors in the Ugandan economy. The sector contributes to national revenue, foreign exchange and employment generation, in addition to being a vital input into other sectors. The sector in Uganda is regarded as having a great potential of generating employment, following the significant public investment in electricity and the increasing



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule


private sector investment in the sector after the liberalisation of the power sub-sector.

The energy sector in Uganda is made up of three sub-sectors namely Power, Petroleum and New and Renewable Sources of Energy. The power sub-sector covers electricity generation, transmission and distribution. The new and renewable sources include woody and non-woody biomass, solar, wind, geothermal and hydrological. The petroleum sub-sector covers both upstream (exploration and development) and downstream (refining, storage, distribution and marketing) industries. The sector is placed under the Ministry of Energy and Mineral Development which deals specifically with the formulation, implementation and monitoring of energy policy. The national energy policy of Uganda is based on the strategy of progressively expanding investment in modern energy production, petroleum exploration and development, rural electrification, the supply of well-priced petroleum products and increasing the efficiency of energy use in all sectors. Energy supply is part of the poverty eradication process, and is geared towards allowing the population to meet one of its basic needs in a sustainable manner.

The per capita energy consumption in Uganda is 0.3 TOE. Modern energy supplies, such as electricity and petroleum products, are accessible to a small percentage of the population. Approximately 94 per cent of the total energy consumption is biomass. Biomass provides almost all energy used to meet basic needs of cooking and water heating in rural and urban households, institutions and commercial buildings. Biomass is also the main source of energy for rural industries. The dominant biomass source of energy is wood fuel accounting for 80 per cent of total energy consumption. Wood fuel in the form of charcoal is consumed particularly in the urban areas while the rural population utilise wood fuel in the form of firewood. However, wood fuel requirements have contributed to the degradation of forests with wood reserves depleting at a rapid rate in many regions. Concerted efforts being made by the private sector, NGOs and the government to conserve biomass resources and reverse the environmental degradation include the promotion of reforestation and improved stoves.

Uganda's electrification rate is very low with grid access of only 5 per cent for the entire country and less than 2 per cent in rural areas. Residential consumers account for about 55 per cent of total electricity consumption as against 24 per cent and 20 per cent by commercial and industrial sectors. About one per cent of the population relies on diesel and petrol generating sets, car batteries and solar photovoltaic (PV) systems. Uganda is endowed with significant hydroelectric potential, particularly along the Victoria and Albert Niles. Uganda's electricity supply is mainly hydro-based. The country has many mini- and micro-hydropower sites that can be developed to supply isolated areas or feed into the national grid. Even with much of the potential unexploited, Uganda exports electricity to neighbouring Kenya, Tanzania and Rwanda. Current hydroelectric power exploitation in Uganda is about 317 MW, compared with a power potential of over 2000 MW. Two major independent power producers, AES Nile Power and Norpak Power Company, are in various stages of setting up larger power plants that will have a combined capacity of 450 MW when completed. The government is currently pursuing two rural electrification projects, namely the Energy for Rural Transformation (ERT) programme and a three-year pilot off-grid solar power project. The ERT is aimed at ensuring increased rural access to modern, clean and affordable energy by 2012.

Petroleum consumption currently stands at about 0.55 million $m^3$ per annum and has experienced a steady increase of 42 per cent between 1995 and 2001. Petroleum products are obtained entirely through imports. In spite of the absence of petroleum production, the potential hydrocarbon capacity of the rift basin is evident. The principal prospective area for petroleum is the Albertine Graben. It stretches from the border with Sudan in the north to Lake Edwards in the south, a distance of over 500 km. The Graben extends into the Democratic Republic of Congo in some parts. An agreement of co-operation for exploration and exploitation of any common fields between the two countries is in place. There are a number of on-going petroleum-exploration projects in the energy sector to meet the increasing demand of energy in the economy. There are also discussions

OECD Browse_it Edition • Read Only • Lecture seule

between Uganda and Kenya to find the best option for implementing the Eldoret / Kampala Oil Pipeline Extension project to minimise the cost of delivery of petroleum products from the seaports.

Concerning renewable energy sources, the average wind speed of about 3 meters per second provides a wind regime sufficient to support wind technology applications. Solar application currently includes solar PV, water heating, cooling and crop drying. The government is currently pursuing a solar PV pilot project through a financing mechanism that makes it possible for both PV consumers and vendors to obtain credit from banks for solar rural electrification. Geothermal energy is a potential alternative to hydro, fossil fuel, and biomass energy resources. Hot springs in the western part of the country around the shores of Lake Albert, with the temperature ranging from 50°C to 100°C, are evidence of the country's geothermal power potential. The estimated national potential, so far untapped, is 450 MW.



Investment opportunities in the energy sector particularly exist in the power sub-sector. Whereas Uganda has plentiful hydropower resource potential, it has one of the world's lowest levels of electricity development. Considerable scope exists for accelerating electrification. The potential for private sector participation in developing mini hydropower dams, and solar photovoltaic systems, biomass and co-generation by sugar and tea factories to provide electricity is quite substantial.

Privatisation remains a key element of the structural measures aimed at enhancing the business environment. Since re-activating the privatisation programme in 1995, as of June 2003, Uganda has divested 74 enterprises out of a total 155 enterprises on the divestiture list. In addition to the divested enterprises, 34 enterprises have been liquidated. The government has taken a number of initiatives to speed up as well as enhance the transparency of the privatisation process. These include the appointment in 2002 of an independent power regulator, the Electricity Regulatory Authority. In addition, in 2002 the government began to concession the Uganda Electricity Generation Company, Uganda Electricity Distribution Company and the Uganda Railway Company to private investors. Preparations for private sector participation in water delivery in urban towns started in 2003; the water systems in 33 urban towns were privatised under an operating lease during the year. Further, in 2003 the government focused attention on critical transportation links by offering a long-term concession for the operation, maintenance, and expansion of the railroad in conjunction with the national railroads of Kenya and Tanzania. In addition, in 2003 a privatisation advisor was contracted for the sale of the Uganda Development Bank (UDB). The government is committed to privatising UDB, or liquidating the institution should privatisation fail. Pending the divestiture, the UDB will not engage in any new lending, including lending on behalf of the government or the BOU.

The financial sector has witnessed significant developments since reforms began in 2000. In particular, closure of insolvent banks and enhanced supervision has contributed to significant improvement in the soundness of the banking sector. The degree of improvement in the banking sector is demonstrated by several indicators. Total deposits increased by about 33 per cent between June 2002 and March 2003, while total bank assets rose by 31 per cent over the same period. Furthermore, the ratio of non-performing assets to total assets has fallen from about 8.2 per cent by June 2002 to 2.9 per cent by March 2003. The total core capital of commercial banks has improved by 9.5 per cent between June 2002 and March 2003. The finalisation of Uganda Commercial Bank's (UCB) privatisation and its merger with Stanbic Bank in 2002 contributed significantly to the stability of the banking system, and spurred the expansion of financial intermediation. During 2003, the stability of the banking system was further enhanced by the closure, and subsequent takeover, of one bank and the recapitalisation of another bank. In addition, new capital requirements implemented in 2003 raised the minimum paid-up capital, thus increasing confidence in the financial system. Further, in 2003, significant progress was made in improving the efficiency and security of the national cheque system. An electronic clearing system (ECS), in which the processing and



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



clearing of cheques is automated, was launched. In addition, in order to improve efficiency and strengthen risk management in the national payment system, an Electronic Fund Transfer (EFT) system was introduced in July 2003. The government has also set its eyes on using the Micro-Finance sector as a vehicle for providing market-responsive financial services to the population. To this end, a target has been set for micro-finance practitioners to reach at least 1.3 million economically active poor by 2006.

## Political and Social Context

Democracy is deepening as the government continues to take steps to improve its ways of exercising political, administrative, and managerial authority and protecting the basic rights of citizens. However, security problems continue to threaten Uganda's democracy. The country continues to face three main security problems: cattle rustling, rebel activity, and urban crime and terrorism. The number of internally displaced persons arising from the conflict with the Lord's Resistance Army (LRA) is estimated at 1.2 million people.

The government's response to these problems has involved alternatively the use of armed force and peace negotiations with the rebel groups. However, the numerous peace initiatives undertaken have so far collapsed reflecting LRA's failure to uphold any agreement. The government has also engaged in improving diplomatic relations with neighbouring countries, as testified by the political rapprochement with the Democratic Republic of the Congo and Rwanda.

The government has invested heavily in good governance to deepen democracy and limit the incidence of corruption, which continues to hold sway in the country. Some steps have been taken to implement the Enforcement of Leadership Code. Several public officials, including a presidential advisor have been dismissed since 2002 for not submitting their asset declarations to the Inspector General of Government (IGG). Moreover, in 2003 the IGG undertook to make the asset declarations of government officials available to the public. Further, the government is pursuing the implementation of the Justice, Law and Order Programme with some success. The programme focuses on improving access to justice, efficiency and effectiveness in the delivery of justice, and the institutional framework for the delivery of justice, as well as combating corruption. Achievements thus far include clearing backlog cases pending at the high court, which fell from 3 150 in 2002 to 1 145 in 2003, with the remaining cases scheduled to be cleared during 2004.

Uganda is pursuing since 1997 the Poverty Eradication Action Plan (PEAP) with the ultimate aim of improving the quality of life of its citizens. The government's efforts are focused on the provision of basic health care, education, water and sanitation, and the sustainable development of natural resources. Over the past few years, the PEAP has helped to improve the quality of life of Ugandans. Yet, according to preliminary household survey data, the incidence of poverty rose from 34 per cent in 1999/2000 to 38 per cent in 2002/03, partly due to increasing inequality, while it had previously declined from 56 per cent in 1992.



The government's mid-term review of the Health Sector Strategic Plan in 2003 has confirmed considerable improvement in key health indicators. Immunisation rates continue to improve with DPT3 coverage reaching 63 per cent in 2003, well above the target of 48 per cent set for the year. Staffing levels have also improved and currently, 4 349 nursing assistants have been trained. In addition, HIV/AIDS prevalence has fallen to 6 per cent, thanks to an adequate prevention policy implemented over the past decade, suggesting the government is on course to reducing it to 5 per cent by 2005. The government has granted all district hospitals protection, effective from 2003, as part of the Poverty Action Fund (PAF). Malaria is today the highest cause of morbidity and mortality in the country. Uganda is to receive $35 million through the Global Fund to fight Aids, tuberculosis and malaria, which will boost the availability of key health services in the country. More people are now able to access health care services throughout the country. The attendance at outpatient departments, for example, increased by about 40 per cent between 2001 and 2002. In spite of progress in

OECD Browse_it Edition • Read Only • Lecture seule

the heath care system, infant and maternal mortality rates remain persistently high. In order to reduce effectively infant and maternal mortality rates, the government has established a task force on Infant and Maternal Mortality, charged with formulating a comprehensive strategy to address the problem.

The government education policy, which is focused on Universal Primary Education (UPE), is achieving significant results. Because of the increased demand for UPE financing, the national budget allocation to the education sector has increased nominally by about 100 per cent in six years from 20.6 billion shillings ($11 million) when the programme commenced to 46.7 billion shillings ($25 million) in 2002. In response to the budgetary outlay, there has been an improvement in the pupil/classroom ratio in public schools from 106:1 in 2000 to 94:1 in 2002, because of increased construction of new classrooms under the Schools Facility Grant to districts. The pupil/teacher ratio has also improved from 65:1 in 2000 to 54:1 in 2002 following additional recruitment. However, the education system is still plagued by a low retention rate and difficulty in filling vacant posts for teachers, as well as a scarcity of instructional training materials, particularly in science and vocational subjects.





© AfDB/OECD 2004

# Zambia

**key figures**

| | |
|---|---|
| • Land area, thousands of km² | 753 |
| • Population, thousands (2002) | 10 698 |
| • GDP per capita, $ (2002) | 346 |
| • Life expectancy (2000-2005) | 32.4 |
| • Illiteracy rate (2002) | 20.2 |

An OECD Browse_it Edition • Read Only • Lecture seule

# Zambia

ZAMBIA EXPERIENCED SIGNIFICANT ECONOMIC growth of 3.9 per cent in 2003. This performance relied mainly on external factors, such as favourable weather and high international metal prices, and does not seem to be based on internal policies or existent convincing development strategy. The government, particularly, has been unsuccessful on several fronts, which include: promoting a diversification of the country's export base away from its heavy dependency on copper; managing its expenditure — still strongly dependent on foreign assistance — more efficiently; and, most importantly, reducing poverty, which affects 73 per cent of the population. Slowing agricultural growth will reduce GDP growth to 2.4 per cent in 2004. However, new investment in the copper sector and in construction should result in a growth of 3.6 per cent in 2005. Despite this favourable short-term outlook, the absence of a comprehensive strategy of development will adversely affect the country's performance in the medium term.

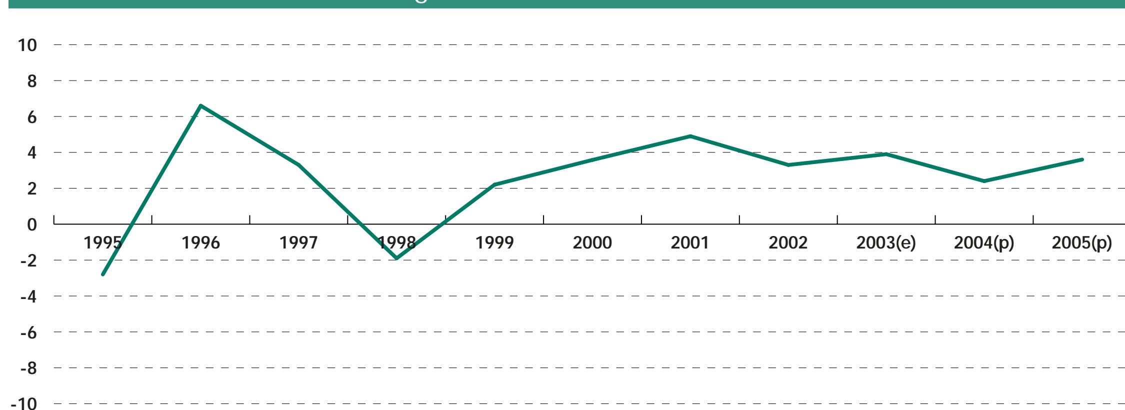
A major obstacle to development in Zambia seems to be governance issues. While on the one hand, the Zambian president has embarked on an anticorruption crusade since his election in 2001, on the other the government continues to face the problem of accountability in its spending. Despite a commitment to increased social spending and the release of large amounts of donor financing following the launch of a Poverty Reduction Strategy Paper (PRSP) in 2002, disbursements in poverty reduction programmes have so far been limited and the quality of spending has been very poor. In 2003, the actual amounts disbursed in poverty reduction measures was only 3 per cent of total expenditures, less than half of the PRSP target. Only a tenth of the expenditures allocated for the roll out of the malaria programme were actually disbursed, crowded out by civil servants' emoluments and allowances that exceeded the programmed amount by 20 per cent, accounting for more than 30 per cent of total expenditures.

**The positive performance and short-term outlook rely more on external conditions rather than on a long-term development strategy.**



Overruns in personnel emoluments led to a suspension of IMF budget support in June 2003, preventing, in turn, the country from reaching the Highly Indebted Poor Countries (HIPC) completion point by December 2003. Rescheduled to end 2004, the achievement of this objective would entail the cancellation of $3.8 billion of foreign debt. The funds released are slated for poverty reduction measures. The achievement of this objective depends however on the ability of the

Figure 1 - **Real GDP Growth**




**Source:** Central Statistical Office data; projections based on authors' calculations.

OECD Browse_it Edition • Lecture seule Read Only

government both to contain fiscal expenditures and to satisfactorily implement the PRSP. As highlighted by the expenditure restraints contained in the 2004 Budget, the government is concentrating its efforts on reaching the completion point. However, in the absence of institutionalised checks and balances, it remains highly uncertain whether the release of resources will be concretely disbursed in poverty reduction projects.

## Recent Economic Developments

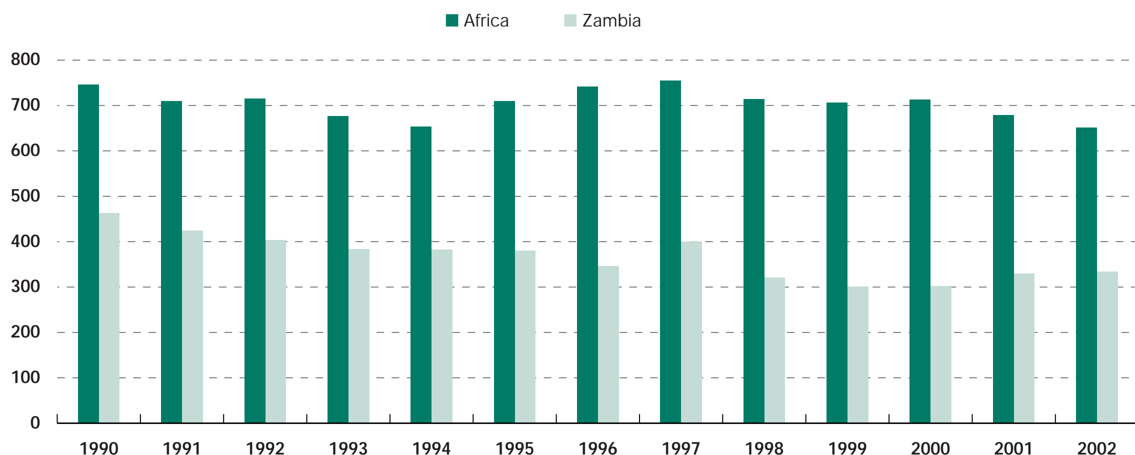
Owing to favourable dollar copper prices and a good maize harvest, growth averaged 3.9 per cent in 2003. This performance was also aided by strong growth in road and building construction. Economic performance seems, however, to come about more by default than by design, relying mainly on external conditions rather than on a long-term government development strategy. Growth in 2004 is projected to fall to 2.4 per cent, on account of modest growth in agriculture. Although re-investment in the mining sector and continued growth in construction — as a result of donor-funded road rehabilitation work — are expected to give a rise in growth of about 3.6 per cent in 2005, the absence of a concrete diversification strategy by the government will affect the country in the medium term.



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 in high value crops, light manufacturing, small-scale mining, and tourism. However, as examined later, the development of the private sector is hindered by a series of bottlenecks in terms of limited access to long-term finance, high utility costs, poor infrastructure and high company taxes. Overcoming these constraints in the short term appears unlikely in light of the absence of an institutionalised dialogue between the government and private sector which is in turn partly due to the absence of a cohesive voice among private sector representatives *vis-à-vis* the authorities.

Accounting for about 21 per cent of GDP and absorbing 67 per cent of the labour force, Agriculture, Forestry and Fishery remain a cornerstone of the economy. After three seasons of scanty rains and drought that forced the country to rely on external food aid, the sector registered a growth of 5 per cent in 2003, compared to a decline of 1.7 in 2002. The national production of maize, which is the main food crop, almost doubled, reaching 1.2 million metric tonnes compared to 607 000 in the 2001/02 crop season. Substantial increases were also recorded in other crops, including wheat, sorghum, soya beans, and groundnuts. Following the favourable food production in the 2002/03 agricultural season, the country's food security situation has improved. According to official sources, the total food availability was estimated at 2.25 million metric tonnes of cereal equivalent against the national requirement of 1.8 million tonnes.

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



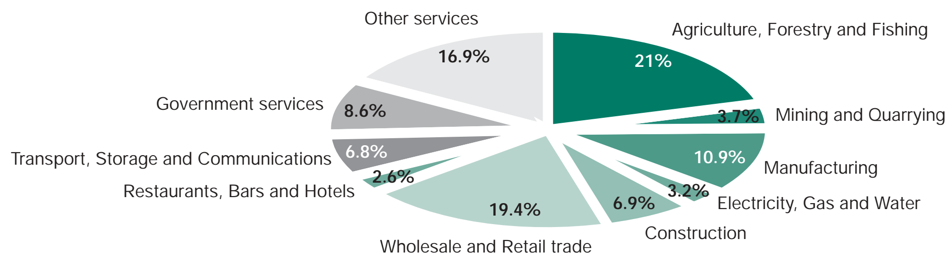

**Source:** IMF.


© AfDB/OECD 2004

OECD Browse_it Edition • An OECD Read Only Lecture Seule

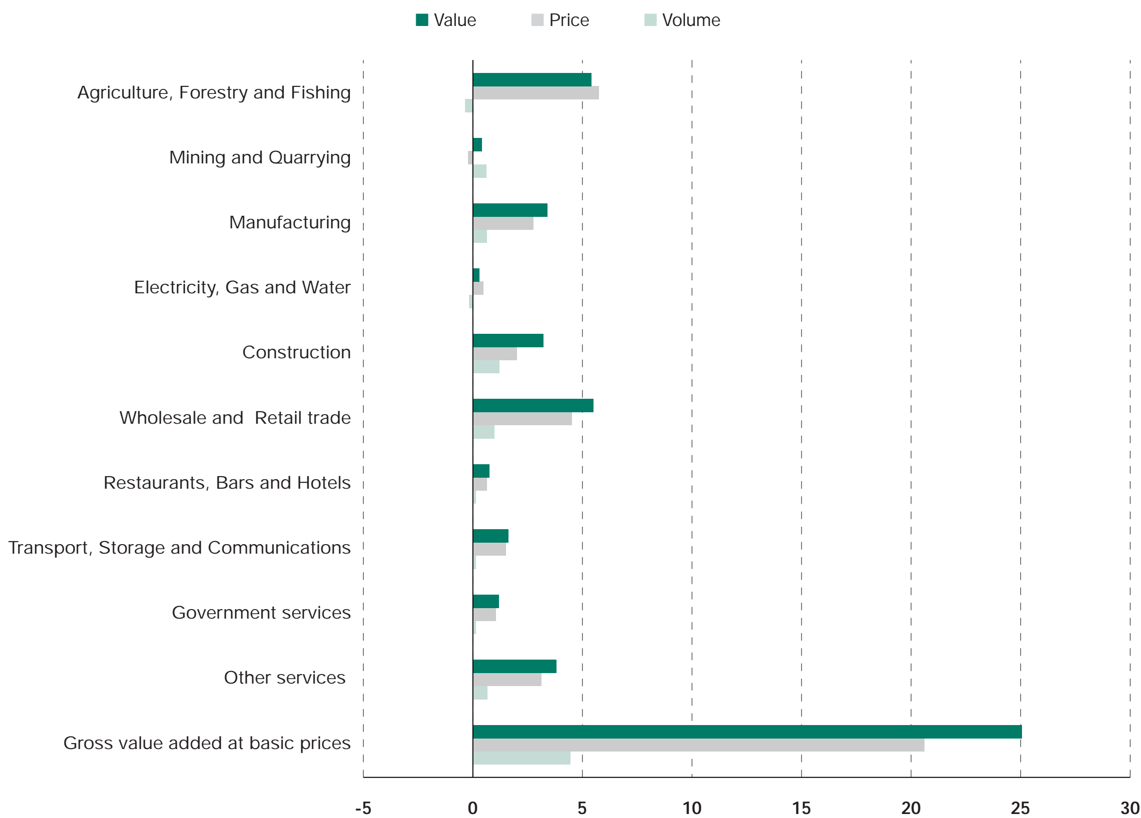


## Figure 3 - GDP by Sector in 2002




**Source:** Authors' estimates based on Central Statistical Office data.

## Figure 4 - Sectoral Contribution to GDP Growth in 2002




**Source:** Authors' estimates based on Central Statistical Office data.

This increase was mainly the result of improved weather conditions and government efforts to distribute inputs on time across the country. However, owing to poor irrigation systems, agricultural performance remains vulnerable to rain patterns and is threatened by lack of access to credit and infrastructural deficiencies, translating into very high transport costs, and lack of proper and consistent marketing channels. Weather conditions in the 2003/04 season are expected to be normal and agriculture is projected to grow by a more modest 3 per cent in 2004 and 2005.

While 58 per cent of Zambia's total land area is considered to have medium to high potential for agricultural production, only 14 per cent of total agricultural land is currently under cultivation.

OECD Browse_it Edition • Read Only • Lecture seule

Commercial farmers own most of the best agricultural land and they produce surplus maize and other cash crops, 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 subsistence farming land in Zambia falls under the customary land tenure system controlled and allocated by traditional authorities (village chiefs) which leads to inefficient land resource allocation and is an additional factor inhibiting the sector's growth potential. Furthermore, high interest rates and limited credit facilities prevent new investment in the sector.

Since his election in December 2001, President Mwanawasa made agriculture the priority sector for Zambian economic growth and announced radical moves to improve the land tenure system as well as to strengthen rural infrastructure and extension services. Although progress in setting up infrastructure and creating markets remains slow, in 2003 government policies have been successful in improving access to fertilisers and seeds. This was achieved through the introduction of a 50 per cent input subsidy under the Fertiliser Support Programme (FSP) to small-scale maize farmers. In addition, the government encouraged the planting of irrigated "winter" maize by commercial farmers by guaranteeing an agreed minimum price indexed to the US dollar. Another major factor that led to improved maize production in 2003 was the heightened participation of the private and non-governmental sectors in this crop through out-grower schemes and community projects, respectively. Interestingly, as a way to attract investment and encourage the development of commercial farming, the Zambian government has welcomed white Zimbabwean farmers into the country. The initial enthusiasm of the farmers to immigrate to Zambia however, has abated in the face of reluctance by the Zambian immigration authorities to issue permits for Zimbabwean labourers.

The mining and quarrying sector grew by an estimated 3.3 per cent in 2003 mainly on account of an increase in copper output, in a context of rising international metal prices. Growing demand in construction activities, especially in road construction and residential housing development led to a growth in other mining and quarrying sub-sectors of about 9 per cent in 2003, compared to a decline of 13.5 per cent the previous year.

In 2002, the performance of the mining sector was adversely affected by the withdrawal of Anglo American from the Konkola Copper Mines (KCM), which produces two-thirds of Zambia's copper, and the continued closure of Roan Antelope Mining Corporation of Zambia (RAMCOZ). In 2003 and in the first half of 2004, the government started a comprehensive economic restructuring programme aimed at promoting private-sector-led mining development. In particular, in December 2003, 85 per cent of RAMCOZ was sold to J&W investments of Switzerland, while 51 per cent of KCM should be sold to Sterlite Industries of India in mid-2004. Another important company, First Quantum Minerals is expected to start large-scale production in the Kansanshi copper mine by the end of the year. These increasing investments in the sector suggest good overall prospects for the mining sector in 2004 and 2005.

The manufacturing sector, which accounts for 11 per cent of GDP, registered an estimated growth of 6.3 per cent in 2003, compared to 5.7 per cent in 2002. The growth in this sector was largely from the food, beverage and tobacco sub-sector, because of the rebound in agriculture and increased investment in food processing, coupled with the reduction of duties on inputs. The textile and leather sub-sector also recorded positive growth owing to improved investment in cotton ginneries, which in turn led to increased exports of lint cotton.

Despite these positive achievements, the development of the sector is constrained by a series of bottlenecks. These include a weak domestic market, a narrow export base, and unfair competition arising from smuggling from Zimbabwe.

Moreover, as examined later, the signing of several trade agreements since the 2000, both within the region and with the US and EU have proved so far to have limited impact on boosting manufacturing exports. This has highlighted the lack of competitiveness of the Zambian manufacturing sector owing to Zambia's high



 © AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule • A


cost base (mainly due to its landlocked status) and poor co-ordination between producers and exporters.

Another major constraint to the development of the sector is insufficient access to affordable credit. Commercial lending is very expensive on account of the government's enormous borrowing requirements which crowd out the private sector. Commercial Banks hold around 70 per cent of Zambia's total Treasury Bill's issuance. Actual rates charged to investors are close to 45 per cent nominal. Even in real terms, these rates remain extremely high, at around 23 per cent per annum, reducing the incentives to invest in more risky manufacturing projects. The limited new investments are therefore undertaken by foreign companies, but these are also under pressure owing to high utility costs, inadequate infrastructure and difficulties in acquiring licences.

Tourism has registered an average growth of 5 per cent over the period 2001-2003. The opening of two luxury Sun International Hotels in Livingstone near the famous Victoria Falls in 2001 and the rehabilitation of Livingstone airport to increase air traffic from South Africa, contributed to boost tourist arrivals. The rapid growth of the sector is nevertheless constrained by inadequate infrastructure, poor marketing and by the proximity of Zimbabwe, whose current political economic turmoil discourages tourism in the Zambezi River.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **13.1** | **18.6** | **20.0** | **23.0** | **22.6** | **23.1** | **24.9** |
| Public | 9.1 | 9.9 | 11.6 | 14.0 | 13.2 | 12.9 | 13.3 |
| Private | 4.0 | 8.7 | 8.4 | 9.0 | 9.4 | 10.3 | 11.6 |
| **Consumption** | **92.7** | **95.2** | **95.8** | **82.3** | **81.6** | **76.4** | **74.5** |
| Public | 16.1 | 13.8 | 17.2 | 13.0 | 14.0 | 13.1 | 12.8 |
| Private | 76.6 | 81.3 | 78.6 | 69.4 | 67.6 | 63.3 | 61.7 |
| **External demand** | **-5.8** | **-13.8** | **-15.8** | **-5.3** | **-4.2** | **0.5** | **0.6** |
| Exports | 37.0 | 26.9 | 29.2 | 23.7 | 24.4 | 27.3 | 27.2 |
| Imports | -42.8 | -40.7 | -45.0 | -29.0 | -28.6 | -26.8 | -26.6 |

**Source:** IMF and domestic authorities data; projections based on authors' calculations.

Against a background of increasing investment in the mining sector, private gross capital formation is expected to increase in 2004 and 2005. Increased copper volumes will then translate into increasing exports. Government overspending (largely caused by higher than budgeted pay rise for public sector workers) experienced in 2003 is expected to modestly contract, reflecting the restrictive stance of the 2004 budget to facilitate the resumption of donor funding and the achievement of the completion point.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

The Zambian government's economic policy objectives are anchored in the Poverty Reduction Strategy Paper issued in May 2002, whose overarching goal is poverty reduction through sustained economic growth and employment creation. In line with this goal, the government set a series of objectives for 2003, including reducing the budget deficit, reaching the completion point under the enhanced HIPC initiative, and raising poverty reduction expenditures to 2.2 per cent of GDP.

Despite the government's commitment to contain expenditures, overall budget deficits have reached 8.1 per cent of GDP in 2001 and 6.3 per cent in 2002. This was the result of persistent fiscal indiscipline and withholding of donor budgetary support — which constitutes the major component of budgeted revenues — in response to the government's deviation from policies and benchmark agreed with donors.

Although revenue collection was 2 per cent above target, thanks to improved collection of mineral royalties and higher collections in Pay As You Earn taxes, the overall budget deficit is estimated to have averaged 7.6 per cent of GDP. This was due to a higher than expected increase in civil service personnel emoluments — wage increases ranged from 35 per cent to 124.7 per cent against a projected 12.6 per cent — as well as increasing payment of housing allowances and financing of by-elections not foreseen in the budget. This led to current expenditures exceeding the programmed amount by 20 per cent.

Projected overruns on personal emoluments above the target of 8 per cent of GDP agreed with the Bretton Woods Institutions led to a suspension of International Monetary Fund budget support in June 2003. In turn, this prevented an agreement on a new IMF Poverty Reduction Growth Facility (PRGF). The successful implementation and monitoring of the PRGF was crucial to reach the HIPC completion point. This would have enabled the country to qualify for a $3.8 billion debt write off, out of the $6.5 billion it owes in foreign debt. The date for the achievement of the completion point, scheduled for December 2003, has therefore been postponed to the end of 2004.



The rise in expenditures, compounded with a shortfall in donor funding in 2003 — external budget support was originally set at 42 per cent of revenue — forced the government to increase domestic borrowing. This led to a growth in domestic debt of about 26.5 per cent: from K.4850 billion ($1.02 billion) at the end of 2002 to K.6270 billion ($1.31 billion) at the end of December 2003. In turn, domestic debt interest payments accounted for 10.6 per cent of total expenditures compared to a PRSP target of 4.5 per cent.

Overruns in current expenditures crowded out disbursements on some priority expenditure items, such as investment in roads and other infrastructures and poverty reduction programmes. Domestic capital expenditures accounted for only 7 per cent of total expenditures and were 50 per cent below target. Of these, expenditure on poverty reduction programmes was 76.5 per cent below target, amounting to less than 1 per cent of GDP. Underspending on poverty reduction programmes is a clear reflection of very weak political commitment, lack of monitoring mechanisms as well as capacity constraints at the local level. The failure to increase poverty reduction expenditure is another disappointment for the donor community, as the satisfactory implementation of the PRSP constitutes a major criterion of HIPC debt relief.

With the attainment of the HIPC completion point by the end of 2004, considered vital to the medium-term economic survival of the country, the government presented an "Austerity for Prosperity" budget in January 2004.

The budget puts emphasis on the accumulation of revenues, introducing two new personal tax bands at 35 and 40 per cent that is expected to increase the burden of taxation borne by the average middle-income earner in Zambia. This measure is highly controversial as it is likely to place more pressure on formal sector employees (only 450 000 individuals) and it fails to address the need to extend the tax base to the informal sector. Indeed, the budget also fails to contemplate measures to broaden the VAT base. Furthermore, the new tax increases are not expected to have a strong impact on budget revenue; against a background of already very high corporate and personal taxation, there is little scope to increase revenue further.

In terms of expenditure, the government committed to limit current expenditures and domestic borrowing requirements, while protecting priority social spending. Public sector wage rises have been frozen. However, the payment of the housing allowance for civil servants was set to continue in 2004. Despite these restrictive measures, overall budget deficits for 2004 and 2005 are expected to continue to be disappointing at 8.2 and 8.6 per cent of GDP respectively.

The principal focus of monetary policy in 2003 was to achieve an end of year inflation target of 8 per cent. The achievement of this objective was based on a broad money growth not exceeding 6.6 per cent. However, owing to slippages in fiscal policy, the inflation target was revised to 17.1 per cent and annual growth in

OECD Browse_it Edition • Read Only • Lecture seule



© AfDB/OECD 2004

OECD Browse_it Edition • An OECD Read Only • Lecture seule



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

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants**[a] | **29.0** | **23.2** | **24.8** | **26.2** | **23.6** | **22.2** | **21.7** |
| Tax revenue | 18.2 | 17.3 | 18.6 | 17.5 | 16.4 | 15.4 | 15.1 |
| Grants | 9.1 | 5.7 | 5.7 | 8.3 | 6.8 | 6.4 | 6.2 |
| **Total expenditure and net lending**[a] | **33.4** | **31.0** | **32.9** | **32.5** | **31.2** | **30.4** | **30.3** |
| Current expenditure | 24.2 | 16.1 | 18.7 | 19.4 | 20.4 | 19.2 | 18.8 |
| *Excluding interest* | *15.6* | *12.1* | *16.2* | *15.4* | *16.5* | *15.6* | *15.3* |
| Wages and salaries | 5.9 | 5.3 | 6.8 | 8.0 | 8.8 | 8.1 | 7.7 |
| Interest | 8.6 | 4.0 | 2.5 | 4.1 | 3.8 | 3.6 | 3.5 |
| Capital expenditure | 9.1 | 10.0 | 11.9 | 11.8 | 11.2 | 10.9 | 11.2 |
| **Primary balance** | **4.3** | **-3.8** | **-5.6** | **-2.3** | **-3.7** | **-4.6** | **-5.1** |
| **Overall balance** | **-4.3** | **-7.8** | **-8.1** | **-6.3** | **-7.6** | **-8.2** | **-8.6** |

a: only major items are reported.
**Source:** Ministry of Finance and Economic Development and IMF data; projections based on authors' calculations.

money supply was adjusted consistently upwards to 16.9 per cent.

In addition, in order to stimulate private investment, the Bank of Zambia completed the conversion of kwacha statutory reserves on foreign currency deposits into US dollars to increase liquidity in the financial system and therefore allow for a reduction in interest rates. Further, the statutory reserve requirements ratio on both kwacha and foreign currency deposits was reduced from 17.5 per cent to 14 per cent. The reduction of the statutory reserve ratio was intended to release funds to commercial banks with a view to improving availability of funds in the banking system for lending to the real sectors, especially agriculture. However, despite this measure, and partly owing to the high inflation, lending rates remained high and unaffordable. The average lending base rate and the average lending rate fell only marginally to 38 and 45.6 per cent at the end of December 2003 from 38.8 per cent and 46.4 per cent at the end of September 2003 respectively.

Through the use of repurchase agreements and open market operations, the Bank of Zambia managed to increase its money supply by about 13.8 per cent with an inflation rate of 17.2 at the end of 2003, (the latter down from 26.7 per cent in December 2002). The decline of inflation towards the end of the year was also supported by a slowdown in food inflation, following the 2002/03 favourable crop harvest. On the contrary, annual non-food inflation rose in 2003, mainly due to an increase in petroleum product prices and the pass-through effects of the depreciation in the exchange rate of the Kwacha, particularly, against the South African Rand in the third and fourth quarters of 2003.

The 2004 budget set an end of the year inflation target of 15 per cent and indicated that interest rates should be in line with inflation by the end of 2004. While food inflation is expected to ease further in 2004, a recent announcement by the Energy Regulation Board to adjust retail prices of petroleum products upwards and risk of slippages in fiscal polices may contribute to building up inflationary pressures in the economy. Despite continued tight monetary policy, inflation is therefore expected to decrease only moderately to 18.6 per cent in 2004 and to 17.3 per cent in 2005. Real interest rates are expected, however, to remain high, owing to the need to attract investment into government securities in order to sustain the government's borrowing requirement.

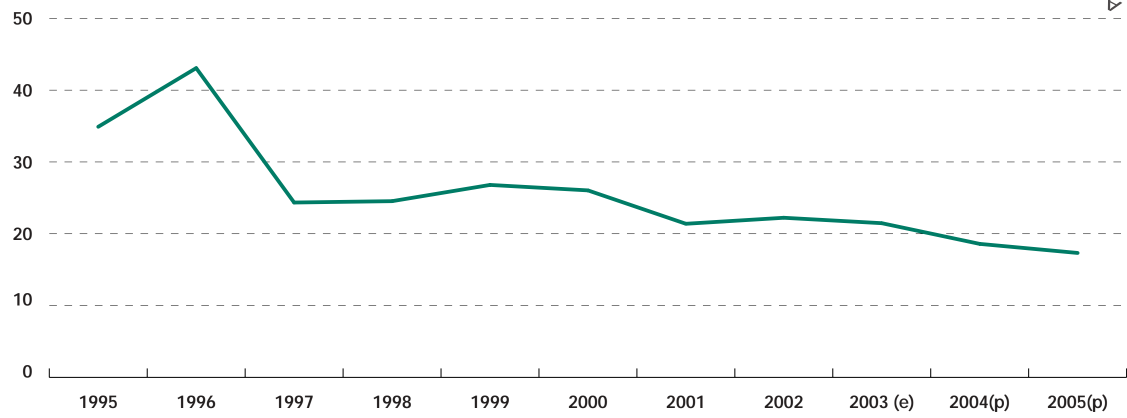
In 2003, the performance of the kwacha against major trading currencies was mixed. While the kwacha depreciated by 33.7 per cent against the South African rand, it appreciated by 3.3 per cent against the dollar, from K4740 per US dollar in December 2002 to K4583.8 per US dollar in December 2003. The appreciation is attributable to a series of factors, including the introduction of a broad based inter-bank



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

Figure 5 - **Annual Average Inflation Rate**




**Source:** IMF and Central Statistical Office data.

foreign exchange system in July 2003, the favourable earnings from copper exports due to high copper prices and the weaknesses of the US dollar against major international currencies.

### External Position



Since 2000, Zambia has entered into a number of trade agreements, including the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area, and the Southern African Development Community (SADC) Trade Protocol. Moreover, it has been granted preferential access to the US African Growth and Opportunity Act (AGOA) arrangement, and the EU Everything but Arms initiative. The impact of these arrangements has been mixed, however, especially because Zambian exporters have not been able to take advantage of their provisions to the same extent as other partners in AGOA. The Zambian government has been criticised for its inactivity and lack of timeliness in implementing trade agreements. For example, extended delays in meeting the requirement for AGOA eligibility in 2001 resulted in lost business for some textile companies. Moreover, as highlighted in the manufacturing section, regional competition appears to have increased, affecting negatively local firms' domestic market sales. This is mainly due to the disadvantaged position of Zambian firms with regard to basic competitive factors, such as interest rates and utility and cement prices, compared to the other countries in the region.

More than 60 per cent of total imports come from South Africa, which supplies mining equipment, chemicals and processed foods. It should be noted, however, that imports from many neighbouring countries and especially Zimbabwe are underreported as much of the cross border trade, particularly in manufacturing, is unrecorded. Smuggling of manufacturing products from Zimbabwe appears to have intensified over the past two years, owing to the currency distortions in that country.

Total export earnings are estimated to have increased by 24 per cent because of increased metal exports, especially towards East Asian economies. Metal export earnings benefited mainly from the rise in international copper and cobalt prices as well as increased volumes. Further export earnings emanated from increased export volumes of cotton lint, tobacco and copper rods and cables. On the other hand, imports recorded an increase of 15.3 per cent in 2003 owing to increased import volumes of petroleum, building materials, and fertiliser.

In 2004, the external position is expected to further improve on the back of increasing copper prices and expected increase in volumes due re-investment in the copper mines. The gains are expected to be even more pronounced in 2005, when KCM and RAMCOZ mines' rehabilitation is expected to bear fruit. The trade balance in 2004 and 2005 is expected therefore to average 1.8 and 1.7 per cent of GDP respectively.

 © AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

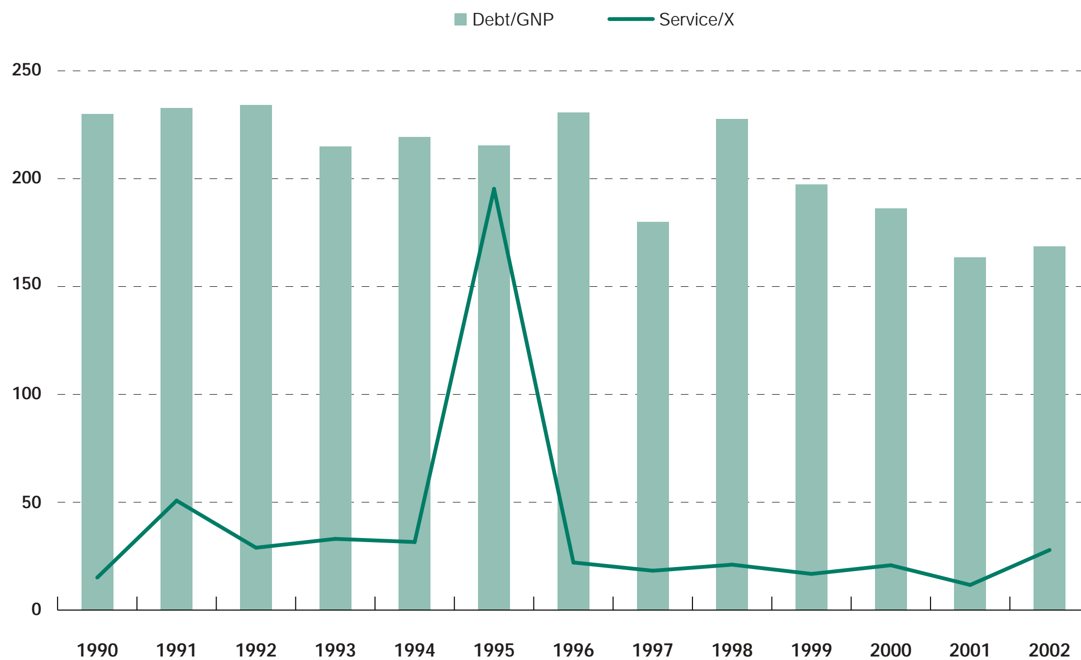


Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -0.2 | -6.8 | -9.8 | -7.8 | -6.6 | -1.8 | -1.7 |
| Exports of goods (f.o.b.) | 34.2 | 23.4 | 24.9 | 24.8 | 25.4 | 28.3 | 28.2 |
| Imports of goods (f.o.b.) | -34.4 | -30.2 | -34.7 | -32.6 | -32.1 | -30.1 | -29.9 |
| Services | -5.6 | -6.9 | -6.3 | -6.6 | | | |
| Factor income | -7.0 | -4.5 | -3.8 | -4.2 | | | |
| Current transfers | 8.6 | -0.6 | -0.6 | 0.2 | | | |
| **Current account balance** | **-4.2** | **-18.8** | **-20.6** | **-18.4** | | | |

**Source:** Bank of Zambia and IMF data; projections based on authors' calculations.

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




**Source:** World Bank.

The stock of external debt, which stood at $7.12 billion in 2002 declined to $6.45 billion at the end of 2003. The decline was attributed mainly to the implementation of the Paris Club Agreed Minute of September 2002 through which Paris Club bilateral creditors provided debt relief of up to 90 per cent for the consolidated period from January 2001 to 31 March 2003. The reduction in debt stock was due also to debt repayment amounting to $113.1 million in 2003.

Of the total external debt stock, the government accounted for 92 per cent, while private sector and *parastatals* accounted for the remaining share. Regarding debt composition, 57 per cent of the debt was owed to multilateral institutions, while bilateral creditor debt represented 35 per cent.

As mentioned earlier, slippages in the economic programme with the IMF resulted in the failure to achieve the HIPC completion point scheduled for the end of 2003. The government has been placed on the Staff Monitored Program (SMP) to assess its progress towards macroeconomic stability. The government's commitment to IMF programmes is necessary to



© AfDB/OECD 2004

OECD Browse_it Edition • A Read Only • Lecture seule

institute a new Poverty Reduction Growth Facility (PRGF). In this respect, the budget framework for 2004 was considered satisfactory for the IMF in order to proceed to a new PRGF arrangement. In turn, a satisfactory performance under PRGF program will allow the country to reach the completion point in December 2004, thereby accessing maximum debt relief amounting to $3.8 billion. The reaching of the completion point is also dependent upon the successful implementation of the Poverty Reduction Strategy Paper. The assessment of intermediary targets shows, however, that many programs envisaged by the PRSP, especially in the health and structural reforms have been implemented only partially.

## Structural Issues

The 1990s were characterised by substantial trade liberalisation, privatisation, and deregulation of prices under donor-advised structural adjustment policies. The advent of President Mwanawasa in 2001 signalled a return to the doctrine of self-reliance. He adopted a more critical stance towards privatisation and in favour of a "Zambianisation" of the economy. As mentioned earlier, in spite of the government's encouragement of citizen empowerment, private sector participation in the economy is limited, undermined by weak macroeconomic stability, lack of dialogue with the government, critical infrastructure bottlenecks and high import duties on fuel and other essential inputs which all make investment planning difficult with increased uncertainty and risk.

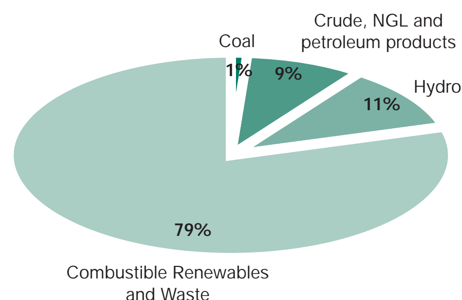


A part from petroleum, which is wholly imported, Zambia has abundant energy sources, including fuel wood, hydropower, coal and renewables such as solar, wind and biogas.

As woodlands and forests cover about 66 per cent of the total land area, wood fuel in the form of firewood and charcoal is the principal source of energy in the country, accounting for 79 per cent of total energy supply. The second largest indigenous source of energy is hydropower, contributing 12 per cent to national energy supply. Most commercial energy needs are met from the country's hydroelectric stations, namely Kafue Gorge (900 MW), Victoria Falls (108 MW), owned and operated by the state-owned Zambia Electricity Supply Company (ZESCO) and Kariba North Bank[1] (600 MW), and other small hydro and diesel stations. The mining industry is the largest energy user, consuming about 70 per cent of total supply while industrial users account for 15 per cent.

The total installed electricity generating capacity in Zambia is 1780 MW, which represents only a quarter of the country's potential, estimated at 6000 MW. However, despite the availability of excess installed capacity, accessibility of electricity to the majority of the population remains low. About 21 per cent of the urban population has access to electricity and only

Figure 7 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

1. Owned by Kariba North Bank Company.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule • A

2 per cent have it in rural areas. In addition, power distribution suffers from technical and non-technical losses, associated to illegal connections that lead the distribution sector to operate at a huge loss.

Plans to rehabilitate the distribution infrastructure and increase accessibility to electricity by the majority of the population through liberalisation of the sector and privatisation of the generation and distribution functions were already contained in the National Energy Policy formulated in 1994. Over the past ten years, however, there has been no progress in this direction. ZESCO is still vertically integrated, holding the monopoly of generation, transmission and distribution.

In 2002, the Energy Regulation Board proposed a programme to restructure the industry through the unbundling of the generation, transmission and distribution functions, placing them under private management. Privatisation of ZESCO also became one of the objectives set in agreement with the IMF in order to reach the HIPC completion point. However, in April 2003, the government announced that ZESCO would be commercialised, leaving aside the proposal of unbundling the company. The road map towards commercialisation will involve the appointment of a board of directors independent from government interference and the implementation of a broader energy policy framework. Performance under this new arrangement will be reviewed at the evaluation point of the HIPC objectives, scheduled for June 2004. Another government priority is to unlock the country's huge hydropower potential, by attracting foreign investment. This makes the need to restructure the industry and eventually unbundle generation from transmission and distribution pressing.

In terms of increased access to electricity, at the end of 2003 the parliament discussed the creation of a Rural Electrification Authority in charge of developing and implementing rural electrification master plans for the systematic electrification of rural areas. The functions of the authority will include: developing mechanisms for the operation of a grid extension network for rural electrification as well as applying a smart subsidy for capital costs on projects designed to supply energy in rural areas. The rural electrification programme also contemplates the use of solar technology that has been applied so far only in pilot projects, with encouraging results.

Petroleum is fully imported through the 1704 km Tazama pipeline, jointly owned by Zambia and Tanzania, which transports crude oil from Dar es Salaam to Nodla and the Indeni refinery. Until 1999, petroleum imports were handled by the Zambian National Oil Company (ZNOC). In 2002, ZNOC was liquidated and the government proceeded with the liberalisation of oil procurement. The marketing and distribution of petroleum products is undertaken by privately owned oil marketing companies that have been licensed to import and retail petroleum products, as well as purchase refined products from the Indeni refinery. Zambia's retail petroleum prices remain, however, among the highest in the region owing to high transport costs, the weak domestic currency as well as the incapacity of the Indeni refinery to guarantee supply.



A structured, finalised privatisation programme was launched in July 1992 with the enactment of the Privatisation Act of 1992, which set out the legal basis of the privatisation programme and attributed responsibility for all government privatisation issues to the Zambia Privatisation Agency (ZPA). The divestiture programme envisaged different phases, starting from privatisation of small and medium enterprises, and then proceeding to the larger companies. A total of 259 State Owned Enterprises (SOEs) had been privatised as of 31 December 2003 out of a working portfolio of 283 SOEs. While there has been progress in privatising SOEs, the largest companies in vital economic sectors such as utilities, oil and finance are still state owned.

With President Mwanawasa's arrival in power, there has been a change in policy regarding privatisation of the largest SOEs. Contrary to the plan envisaged by the 1992 privatisation programme, the government has chosen to commercialise the telecommunications, energy and insurance parastatals. However, it is committed to completing the privatisation of the Zambian National Commercial Bank (ZANACO) as

OECD Browse_it Edition • Read Only • Lecture seule

its sale is part of the objectives set in agreement with the IMF to reach the HIPC completion point. In this respect, major negotiations took place in early 2004 between the government and the two interested bidders for the 49 per cent of ZANACO, namely: the Amalgamated Bank of South Africa (ABSA) and Africa International Financial Holding (a consortium of HSBC, the European Investment Bank, the International Finance Corporation, Netherlands Development Finance Organisation, and the National Bank of Malawi). The government will retain a 25 per cent stake in ZANACO and 26 per cent will be sold to Zambians through the Zambia Privatisation Trust Fund, for future floatation.

In the mining sector, after a delayed and problematic privatisation of the Konkola Copper Mines (KCM) in 2000, which ended with the withdrawal of the investor, Anglo American, from the mine, there were new developments in 2003. In particular, negotiations with the Indian Sterlite Industries for the acquisition of KCM took place throughout the year and are expected to conclude in mid-2004, while 85 per cent of RAMCOZ mine has been bought by the Swiss Firm J&W Investments.

In the transport sector, a major development in 2003 has been the concession of Zambia Railways Limited to a consortium comprising New Limpopo Bridge Project Investments and Spoornet from Israel and South Africa, respectively. The concession will run for a period of 20 years.

Transport infrastructures in Zambia consist 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. Over the years, the road sub-sector has taken the largest share of the cargo haulage business, which has resulted in increased pressure on the roads from heavy goods' vehicles. This, coupled with poor road maintenance, has contributed to the rapid deterioration of the road network. 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 products is also made very difficult and thus deepens poverty in rural areas, where 62 per cent of the population lives. Moreover, owing to inefficiencies in the transportation network, transport costs account for about 60 to 70 per cent of the cost of production for many goods, fuelling goods' prices and undermining the competitiveness of Zambian exports.

Road repairs have been undertaken under the Road Sector Investment Programme (ROADSIP), which is a partnership between road users, the government and donors. The project started in 1998 and during the first three years of implementation substantial improvements to the paved road network have been achieved. In particular, the percentage of paved roads in good condition rose from 20 per cent in 1995 to 44 per cent in 1999. 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. As mentioned earlier, in July 2003 Zambian Railways was given in a 20-year concession to New Limpopo Bridge Project Investments and Spoornet. Through greater investment in the company, the consortium aims at reversing the sharp decline in passenger transport and boosting freight volumes.

Over the past years, increasing inefficiency of TAZARA's service delivery has led to a decline in trade through Dar es Salaam to the advantage of the ports of Durban, and Beira, in South Africa and Mozambique, respectively. This reduction in market share has put pressure on the *parastatals* and in 2003 the government approved private sector participation in running TAZARA. The study of options for private sector participation is expected to commence in 2004.

 © AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule



## Political and Social Context

Zambian political history has been relatively stable compared to many other states in sub-Saharan Africa. However, the stability masks deep running problems. In 1991, the Movement for Multiparty Democracy, led by Mr Chiluba, came to power, promoting the transition from a centrally-planned economy, in place since independence in 1964, to a market-led economy. Although the newly liberalised political environment opened the way for comprehensive economic reforms, the Chiluba era (which lasted for a decade) was highly characterised by allegations of corruption and political interference in economic sectors.

In December 2001, Zambia held presidential, parliamentary and local government elections. Despite the fact that EU monitors judged the procedure to be neither free nor fair, Mr Levy Mwanawasa of the ruling party was appointed president with a slim victory: 29 per cent to 27 per cent.

In response, opposition leaders launched a challenge in the Supreme Court in early 2002. The case is expected to last for some time however, probably even beyond the next presidential election, scheduled for 2006. The outcome of the trial is thus likely to be undermined.

After winning a number of by-elections in 2003, the ruling party has secured a parliamentary majority for the first time since the 2001 elections. Moreover during 2003, in an attempt to reinforce his position and divide the opposition, the president appointed members of opposition political parties to his government. However, this move has been seen as way to reach out to the opposition and has caused a lot of acrimony between the ruling party and the opposition.

Since his appointment, Mr Mwananwasa has embarked upon an anti-corruption crusade. A number of high profile former government ministers were charged with corruption and abuse of public office, including the former president, Chiluba. The parliament lifted Chiluba's immunity in July 2002 and he was charged with 59 counts of theft and diversion of state funds. The trial started in the last quarter of 2003.

Despite the zero tolerance initiative against corruption, President Mwananwasa is criticised for having made extensive use of patronage to consolidate his position following the disputed election victory and he shows no intention of reforming the patronage system. Furthermore, corruption of public officials and misuse of public funds continue to be widespread in the country, as suggested by the severe problems encountered in executing budgets allotted to development purposes, which naturally inspires suspicion of malfeasance. Zambia was ranked 92th — out of 133 — on Transparency International's Corruption Perception Index in 2003.

A clear and relatively reliable picture of poverty in Zambia is provided by the results of the Demographic and Health Survey (ZDHS) of 2000/01. Geographically, there is a clear degree of polarisation between the urbanised areas going on the "rail line" from north to south in the centre of the country, and the vast predominantly rural areas at the north, east and west of the country. The division is reflected, for instance, in terms of literacy levels, child mortality rates, life expectancy, access to safe water, electricity, sanitation, and quality of housing. Education and health facilities in rural, remote areas are severely understaffed and there are no incentives for medical or paramedical staff to move there. In the western province, for example, there is one medical doctor for over 30 000 people.

Zambia has its own definition of absolute poverty (about $0.50 per day) and of moderate poverty (about $0.78 per day). According to these definitions, absolute poverty has remained stable throughout the 1990s in Zambia, but overall poverty has increased, from 69.7 per cent of the population in 1991 to 72.9 per cent in 1998 (83.1 per cent in rural areas, and 89 per cent in the western province, compared to 56 per cent in urban areas). The poor households in the areas where maize is the prevailing food crop are also subject to recurrent food security breakdowns. Underweight prevalence for children under five years of age is 28.1 per cent, compared to 22.5 per cent in Uganda and 25.4 per cent in Malawi.



© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule

Interventions to promote poverty reduction were included in the joint government-donor Poverty Reduction Strategy Paper. Owing to lack of government will and political uncertainties, the preparation of the PRSP underwent long delays and was completed only in early 2002. The PRSP for the years 2002 to 2004 aimed at reducing the poverty rate to 65 per cent of the population in 2004 (its 1996 level)[2] and at achieving strong sustained economic growth. Although agriculture was the priority, the document set out goals and policy actions in other areas such as industry, mining, tourism, health and education.

However, the intermediate assessment of the progress achieved by the implementation of the PRSP reveals disappointing results. According to poverty monitoring surveys conducted by local civil society groups, poverty levels have not shown signs of decline despite more than one year of implementing the PRSP by the government. Food insecurity continues to characterise some remote areas owing to inadequate access to farm implements, inputs, credit and markets, which in turn are due to the poor road infrastructure and inadequate extension services. Furthermore, as examined later, the education sector continues to be constrained by inadequate staffing, insufficient teaching material, HIV/Aids, and poor infrastructures. No notable progress has been made towards the provision of safe and clean water and sanitation facilities. Even in industry, tourism, and mining the survey revealed that no notable strategies identified by the PRSP were implemented. The only sector that seemed to have recorded positive developments was the health sector, particularly in certain sites such as rehabilitation of health centres, decentralisation and autonomy in the form of Traditional Birth Attendants (TBAs) and Community Health Workers, as well as a modest improvement in staffing levels. However, the sector continues to suffer from the high cost of health services as well as inadequate bed spaces.



There may be several explanations for the limited progress of the PRSP measures. The major explanation lies in the government's failure to disburse all the resources earmarked for poverty reduction. As mentioned earlier, only a paltry 25 per cent of the total amount earmarked for poverty reduction programmes during the 2002 and 2003 fiscal years was actually disbursed. Other related reasons include the low level of knowledge and understanding of the PRSP at district levels leading to a lack of linkages between district development plans and the national PRSP. In addition, the government is criticised for not providing adequate information on PRSP implementation to the beneficiaries of the poverty reduction programmes.

The ZDHS showed that 16 per cent of the population aged 15-49 is HIV positive. The infection rate is substantially higher among women (18 per cent) than men (13 per cent). There are some indications that the HIV infection rate for young adults is decreasing as the proportion found to be HIV positive increases from 5 per cent among 15-19 year olds to 25 per cent of 30-34 year olds, before falling to 17 per cent of 45-49 year olds. The most worrisome finding from the ZDHS is that almost 50 per cent of the women in the 15-49 age bracket in urban areas are infected with HIV. Mobility is one of the determining factors of the spread of HIV/Aids. After urban areas, prevalence of HIV/Aids is highest along the major transport routes. The 2001-02 ZDHS shows the association of HIV with high adult mortality. Lusaka, Copperbelt and Southern provinces appear to have both the highest adult mortality levels and they are also associated with high HIV levels. The adult mortality levels in these areas are 60 per cent higher than in the northern and north-western provinces, with the average mortality rate about 14.6 per 1 000 in the 15-49 age group.

Although government and donor communities have designed programmes and allocated substantial resources to fight the disease, specific policy responses have been delayed or only partially implemented. This is attributable to the low absorptive capacity of the districts and hospitals and to the brain drain that affects the sector. The country is left with 700 doctors and more than 2 000 nurses have left the country to go to the United Kingdom over the past year. In the framework

2. Rural poverty is to be reduced from 83 per cent to 75 per cent and urban poverty from 56 to 50 per cent.

 © AfDB/OECD 2004

OECD Browse_it Edition • Read Only • Lecture seule


of the Global Fund supported programmes, the government committed itselfto provide antiretroviral drugs to 10 000 people per year and announced its intention to extend provision to 100 000 people in 2005. However, in 2003, only 3 000 people had access to antiretroviral treatment, which was offered only in two country hospitals. The slow uptake is mainly explained by the high cost of hospitalisation associated with antiretroviral treatment. This amounts to K500 000 ($105) per day, corresponding to the monthly salary of a public servant. Another important constraint is the lack of trained people able to provide the treatment.

In terms of other health indicators, the 2001/02 health survey indicated a deterioration of the under-five mortality rate from 162 per 1 000 in 2000 to 168 per 1 000 in 2002, while malaria incidence also seems to have increased from 80 per cent in 2000 to 110 per 1 000 in 2003.

Health policy is based on the five-year National Health Strategic Plan, launched in 2001. One of the main features of the organisational and institutional restructuring of the public health system was decentralisation from the central to the district levels. While some district hospitals have been rehabilitated under the PRSP, erratic drug supply and difficult physical access to health centres continue to pose serious challenges. In addition, the existence of health user fees continues to impede access for the very poor.

Government health expenditures accounted for 2 per cent of GDP in 2002. The 2002 budget execution report reveals some interesting figures: out of K5 billion ($1.05million) allocated for the malaria programme only K500 million ($105 000) was disbursed; and only 25 per cent of the resources allocated for the rehabilitation of hospitals was spent. This, while K1 billion ($ 211000) was budgeted for aircraft purchases, the total disbursement was K3 billion ($631 000).

Following the abolition of fees for government primary schools in 2002, enrolment in primary education increased from 70.5 per cent in 2001 to 76.5 per cent in 2003. Primary completion rates have also improved from 65.3 per cent in 2001 to 72.9 in 2003. Despite this progress, barriers to improved education persist. Examination fees remain a big hindrance to progression beyond grade 7.

Moreover, secondary education suffered major problems in 2003. Following the overrun in expenditures in 2003 that led to the suspension of the PRGF, the Ministry of Education's payroll was frozen, leaving about 10 000 new teachers unemployed, and leading to a steep increase in the pupil/teacher ratio. This in turn has led many teachers to arbitrarily set ceilings for enrolment along with requests for monetary or non-monetary contributions (such as school uniforms).

The education sector policy was laid down in 1996. The Basic Education Sub-Sector Investment Programme (BESSIP) is the main instrument for implementing that policy. Targets included 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 would have been extended to secondary schools. According to the PRSP monitoring carried out by a civil society group, most schools continue to suffer from erratic supplies of learning material. Furthermore, little has been done to improve district infrastructure, and no improvements have been reported in health and sanitation at school. Zambia's HIV/Aids crisis further undermines the educational system by significantly increasing teacher absences and attrition rates and causing dramatic increases in the number of school-age orphans. According to the Ministry of Finance and Economic Development, the government spent 3 per cent of GDP in 2002 and 2003 on education, which is below the benchmark for the HIPC completion point. It requires that 20.5 per cent of the domestic discretionary budget go towards education.



© AfDB/OECD 2004 

An OECD Browse_it Edition • Read Only • Lecture seule

# Zimbabwe

**key figures**

- Land area, thousands of km² 391
- Population, thousands (2002) 12 835
- GDP per capita, $ (2002) 1 380
- Life expectancy (2000-2005) 33.1
- Illiteracy rate (2002) 10.0

An OECD Browse_it Edition • Read Only • Lecture seule

# Zimbabwe



THE COUNTRY'S REAL GDP declined for the sixth consecutive year in 2003. It was expected to shrink by 18.5 per cent in 2003 (after 12 per cent in 2002) and by 14 per cent in 2004.

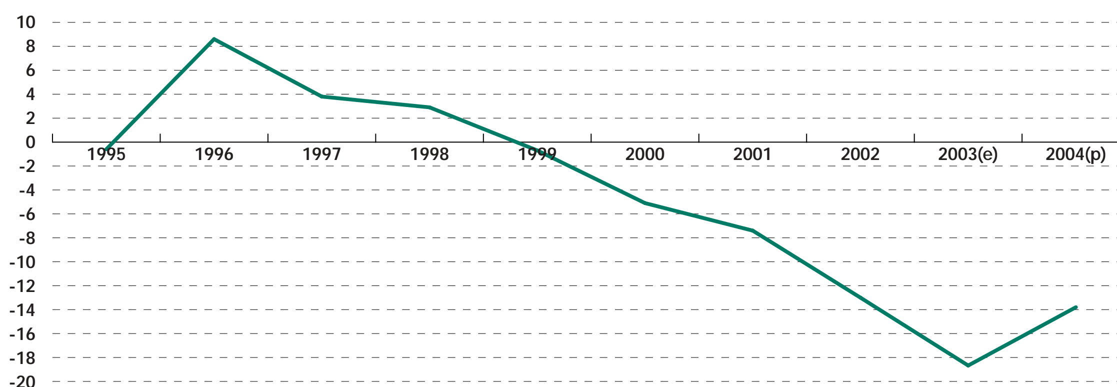
No progress was made in tackling the causes of the severe economic and political crisis that has gripped the country since 1997. The National Economic Revival Programme, launched in February 2003, did not improve conditions for meaningful social dialogue and the government's timid measures failed to reduce macroeconomic imbalances (very high inflation, constant central bank funding of the fiscal deficit, and an overvalued exchange rate) and increase the chances of economic recovery.

Although authorities have partly removed price controls on fuel, the overall approach has largely been incoherent, further deepening distortions in the allocation of scarce resources, such as credit and foreign currency, and widening the quasi-fiscal deficit. In what was once the breadbasket of Southern Africa, food supply remains well below the country's requirements, as a sharp decline in productivity in agriculture accentuates the combined effects of foreign currency and working capital shortages and accelerating inflation.

The lack of government flexibility in undertaking macroeconomic adjustments is expected to intensify the crisis and perpetuate isolation.

Concerns about governance, including lack of political rights and press freedom, continued to create mistrust between government and opposition. The decision to pull out of the Commonwealth in December 2003 will further isolate Zimbabwe and complicate resumption of political dialogue. The long-running crisis is increasing deep divisions in an already fragile social fabric, helped along by collapsing health-care and education systems and two million people suffering from HIV/AIDS. These problems are reflected in the steep rise in the number of Zimbabweans living abroad, now estimated at more than three million (about a quarter of the population).

Figure 1 - **Real GDP Growth**



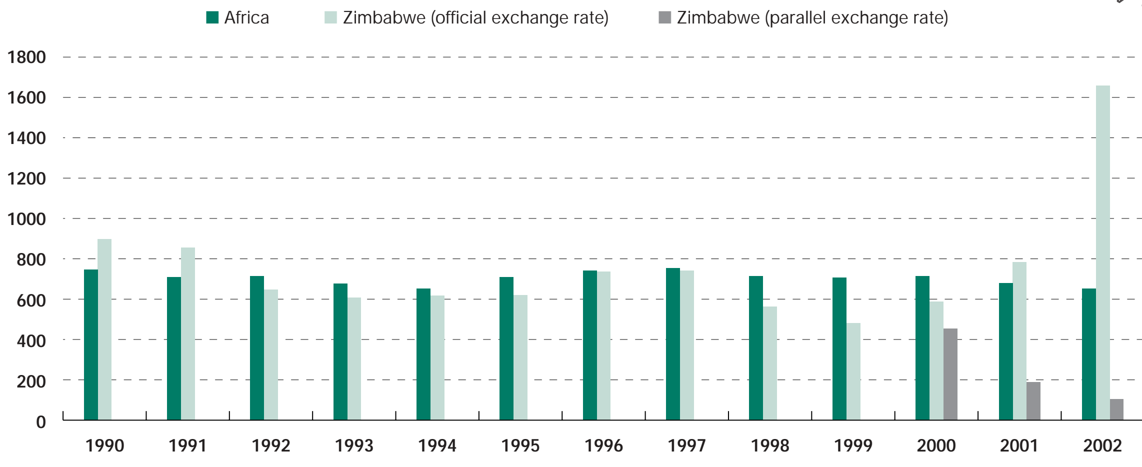

**Source:** IMF and domestic authorities' data; projections based on authors'calculations.

## Recent Economic Developments

Zimbabwe's macroeconomic environment has deteriorated sharply over the past six years. Real GDP fell by an average of more than 6 per cent in 2000-01 and by more than 30 per cent in 2002-03. Inflationary pressures worsened in 2003 and the lack of anchors further reduced economic activity and the

OECD Browse_it Edition • Read Only • Lecture seule

Figure 2 - **GDP Per Capita in Zimbabwe and in Africa** [a] (current $)




a. The peak in GDP per capita in 2002 is due to the distortion of using the overvalued official exchange rate. As 70 per cent of the transactions take place in the parallel market, the official rate is not representative of the GDP per capita. The official rate used is Z$43:1US$ in 2000 and $55:1US$ in 2001 and 2002; the parallel rate is Z$56:1US$ in 2000, Z$214: 1US$ in 2001 and Z$729:1US$ 2002.

**Source:** IMF.



competitiveness of exports. The economy also suffered from continued uncertainty over the land reform programme, declining productivity on resettled farms and shortages of foreign exchange.

Severe bottlenecks emerged as imports of raw materials (such as fuel) and production inputs (fertilizers and spare parts) were drastically cut and infrastructure (railways, electricity and urban water supplies) deteriorated badly. Agriculture and manufacturing were the most affected in 2002 and 2003. The financial sector grew for the fourth straight year but this was due to huge distortions in the foreign exchange market and speculation by banks in real estate and other physical assets markets.

Reflecting mounting concerns on the implementation of the 2003 budget, business and the unions, under the auspices of the Tripartite Negotiating Forum (TNF), pushed the authorities to launch a National Economic Revival Programme (NERP) in February 2003. As developed further in the note, key elements included introduction of an export support exchange rate equal to Z$824 per US dollar; from the Z$55 per US dollar level which had been pegged since October 2000, raising the export surrender requirement from 40 per cent to 50 per cent; and easing price controls.

From its very inception, however, the NERP has appeared doomed to failure as it did not provide a clear policy framework to fight macroeconomic imbalances, particularly on fiscal reform and structural bottlenecks in the productive sectors. While prices of fuel and some non-basic commodities have been liberalised, government still maintains price controls over an extensive list of basic items (maize, maize meal, wheat, flour and bread) and introduced monitored prices for seeds, beef and cooking oil. It also undermined the cohesion of stakeholders under the TNF in late 2003 by unilaterally announcing increases in public sector wages and electricity prices to reflect the cost of importing energy. Finally, specific measures outlined in the NERP to boost gold and tobacco production were only partially implemented, while the respective support schemes were withdrawn in March 2003.

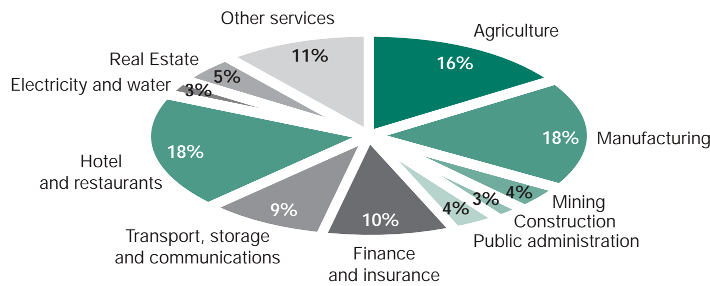
The contraction in the agricultural sector – by 13.5 per cent in 2001 worsening to 24.4 per cent in 2002 – is thought to have slowed in 2003 (by 4 per cent). Maize production rose from 0.49 million tonnes in the 2001/02 season to 0.93 million tonnes in 2002/03, still only half the late 1990s level. The 2002 food emergency was modest but food imports by the Grain Marketing Board are estimated at only 18 per cent of the 2002/03 cereal deficit and some 5.5 million people



© AfDB/OECD 2004

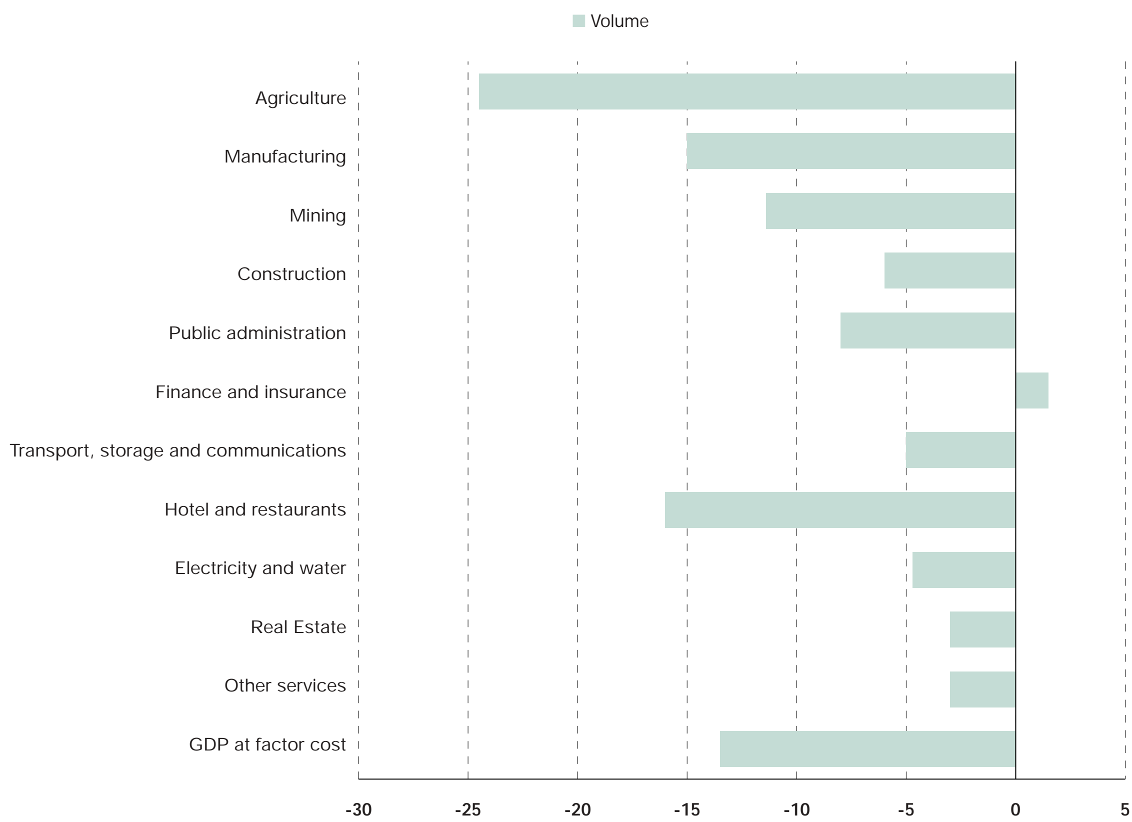
An OECD Browse_it Edition • Lecture seule • Read Only

## Figure 3 - GDP by Sector in 2002




**Source:** Authors' estimates based on national authorities' data.

## Figure 4 - Sectoral Contribution to Real Growth in 2002[a]




a. Data for Figure 4 are at factor cost, so real GDP growth is different from real GDP at market prices reported in Table 1. No consistent data were available for sectoral price changes.

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

(about 45 per cent of the population) need food aid in early 2004.

With the growing social strain of the huge food gap, the government was obliged in July 2003 to appeal to the World Food Programme for urgent help. Pledged international aid so far covers only 22 per cent of the food aid requirement for the 2003/04 marketing year. A catastrophic food situation in 2004 is expected based on seed sales in 2003, when only 40 per cent

OECD Browse_it Edition • Read Only • Lecture seule

of maize planting needs are thought to have been fulfilled.

The ongoing land resettlement programme also continues to make agricultural prospects uncertain and discourages traditional and indigenous farmers from investing in key capital projects such as irrigation, dams and tobacco-processing barns. This and an acute lack of tillage resources are expected to reduce productivity, even with abundant rainfall. As the full cost of the land reform emerges, 2004 harvest yields are expected to be lower than 2003. In fact planting has been very limited, reflecting acute seed shortages, a sharp rise in the price of inputs (beyond the reach of most small farmers) and low farm take-up by resettled households.

The drought between November 2003 and January 2004 made things worse and 2003/04 maize yields are only expected to be 250 000 tonnes, before recovering to around 1.2 million tonnes in 2004/05. This falls way below the country's average annual maize consumption of 1.8-2 million tonnes.



Beef, a fast-growing export to Europe in the 1990s, has been dealt a huge blow by repeated outbreaks of foot and mouth disease and the devastating effects of the land reform programme and most farmers significantly culled their herds. Beef production, down 22 per cent in 2002/03 (from 64 000 tonnes in 2001/02 to 50 000), is expected to drop another 10 per cent in 2003/04. Predictions for 2004/05 are far below the 2001/02 level.

Prospects for cotton are equally gloomy. With an estimated 85 per cent of the crop being produced by small- to medium-scale producers, the general expectation was that cotton production would be marginally affected by the general meltdown in Zimbabwe's agriculture. Cotton tonnage has, however, been reduced by the soaring cost of seeds and fumigation and fell by 30 per cent in 2000/01-2002/03, with a further 39 per cent decline (to 0.14 million tonnes) expected in 2003/04. Major cotton marketing houses say prospects for 2004/05 are bleak, with production below 0.25 million tonnes though slightly higher than in 2003/04 due to government concessional funding to productive sectors, including farming.

Output of tobacco, Zimbabwe's traditional major hard-currency earner (a third of total exports), fell from 173 million kg in 2002 to 103 million in 2003, the lowest level since independence in 1980 (the annual 1998-2001 average was 219 million kg). The drop was due to the one-third reduction in crop area (from 69 000 hectares to 46 500 over the year). About 85 million kg was auctioned off at an average US$2.26/kg during the April/October 2003 sales (compared with 165.7 million kg in 2002, itself a sharp fall from the 2000 record of 237 million kg). The sales earned only US$183 million – compared with US$368.6 million in 2002 and way below the 1996 peak of US$593.4 million – further exacerbating the foreign currency crisis.

Based on the amount of seeds sold in 2003, tobacco output is expected to reach at best 60 million kg in 2004, a 44 per cent decline on the year. Mainly indigenous small farmers are particularly affected by inflation and lack of affordable chemicals, fertilisers, tillage and finance. The overvalued exchange rate reduced the return per hectare to US$3 886 from US$8 473 in 2002. For farmers to break even, an estimated rate of Z$9 000 per US$ is required, compared with the official rate of 824 and a parallel rate of Z$5 300 per US$ in autumn 2003.

Finally, the Tobacco Growers Trust (TGT) funds proved inadequate, with the Reserve Bank releasing only US$6 million out of US$36 million from the 20 per cent retention of tobacco export proceeds. The scheme was abolished in March 2003 as it imposed substantial deadweight losses on the economy. The Reserve Bank introduced a highly- managed foreign exchange auction system on 12 January 2004, allowing exporters to sell 75 per cent of their foreign currency, with the other 25 per cent still sold at Z$824 per US$ for government use. The outlook for 2005 is a further decline in production to about 40 million kg – about 17 per cent of what it was in 2000.

Clarification of the government's land tenure policy, easing the foreign currency shortage, reducing input costs and improving the transport system are priorities for farmers and access to credit the chief long-term


© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only

bottleneck. The main government-owned agro-finance bank, Agribank, was turned into a land bank (Agricultural Development Bank of Zimbabwe) in 2003 with the job of providing cheap credit to farmers in resettled areas. A concessional credit programme of Z$60 billion (Z$40 billion for maize, Z$15 billion for cotton inputs, Z$5 billion for sorghum and millet) was announced, but was a drop in the ocean compared with the estimated Z$600 billion needed to finance the 2003/04 cropping season.

To accommodate the newly resettled farmers who received land under the fast track reform programme, the Zimbabwe Farmers Union (ZFU) called government to put in place a guarantee mechanism and banks to accept farm leases and other loan security options such as movable assets as collateral. In order to boost exports from the currently depressed levels, the ZFU also suggested establishing an agricultural export retention scheme whereby a reserve of foreign currency would be used to procure inputs at the start of each farming season. An expanded special irrigation finance scheme for new farmers was also suggested to the government.

Manufacturing (18 per cent of GDP) contracted by 15 per cent in 2002 and probably a further 13 per cent in 2003. The level of capacity utilisation fell again, to an all-time low of 55 per cent (from about 60 per cent in 2002), due to shrinking domestic demand and less competitive exports. Industrial production, which relies on imports, was badly hit by the acute foreign currency shortage and output of non-metallic minerals fell 40 per cent, food 30 per cent, textiles 26 per cent, wood and furniture 20 per cent and transport equipment 12 per cent.

The lack of foreign currency meant non-exporting companies wanting to import raw materials and spare parts were forced to seek it on the parallel market – where the Z$ traded at multiples of the official exchange rate – thus fuelling inflation and straining cash flows for big firms. Producers of goods still subject to price controls (bread, sugar, cooking oil, furniture and milling) faced extra problems recovering their costs. Other obstacles for manufacturing were scarcity of liquid fuel, electricity and coal and the inability of the railways to move goods. The Confederation of Zimbabwe Industries (CZI) said 60 per cent of companies did not plan any investment in 2002-03 and those that did mainly bought replacements, limiting the creation of jobs and expanded production.

Virtually the entire mining sector was severely affected by the overvalued exchange rate, foreign currency shortage, limited rail services and dearth of fuel. Output of gold – the second largest hard currency earner, with 14 per cent of total 2002 exports, and accounting for half the mining sector's production – fell by 14.3 per cent in 2002 (to 15.47 tonnes from 18.05 in 2001) and was expected to drop by another 20 per cent in 2003. Despite introduction in April 2001 of a price support system (which offered a floor price of US$531 per ounce in March 2002 when the world price was US$296) – companies are scaling back operations, including development work, and many mines have closed. The gold support scheme was abolished in March 2003 while the foreign exchange earnings surrender requirement stayed at 50 per cent.



Despite the foreign exchange auction system that the central bank introduced on 12 January 2004 and the 50 per cent foreign exchange retention allowance, the burden of the 1999-2003 structural and pricing distortions is expected to cut gold production by 10 per cent in 2004 and 5 per cent in 2005. Coal production also slumped by a third in 2001-03. The only sub-sector showing a spectacular increase was platinum, whose 2003 production volume was eight times higher than in 2001. The Chamber of Mines said this was due to completion of the Mimosa phase 1 expansion project in 2002 and the second full year of production of the Makwiro mine. Mimosa increased monthly production by an average 329 per cent in 2003 compared with 2002 and Makwiro by an average 36 per cent.

The financial sector (10 per cent of GDP) is the only one that has shown some resilience, with a real growth of about one per cent in 2002 and 2003. This reflects the distortions of the overvalued exchange rate and the arbitrage opportunities of dealing in foreign currency on the parallel market. The steady economic decline

OECD Browse_it Edition • Read Only • Lecture seule

has also pushed banks to put cash in riskier assets, including stock as well as real estate, and the low interest rate led to a dramatic surge in the stock market, unrelated to the basic facts of the economy. In 2003 (up to 29 December), industrial and mining indices rose 315 and 2 650 per cent respectively, against year-end annual inflation of 598.7 per cent.

The stock market surge did not spill over into the construction industry, which further declined (15.5 per cent) in 2003 after shrinking 6 per cent in 2002. Acute shortage of cement and sharp increases in building material costs were the main cause. Despite the drop, real estate prices have risen sharply due to firms switching investment from production to property. The buoyancy of both sectors, however, is not expected to last because of systemic deterioration of assets quality. The expected increase in interest rates will most likely hurt prices of speculative assets. As the government tightens enforcement of exchange control regulations, most banks will also find it hard to get high rents from parallel market activities.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1995 | 1999 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **24.5** | **15.1** | **14.0** | **0.4** | **-8.3** | **-11.8** | **-11.5** |
| Public | 4.6 | 1.9 | 1.6 | 2.4 | -1.5 | -2.2 | -2.1 |
| Private | 19.9 | 13.2 | 12.4 | -2.0 | -6.7 | -9.6 | -9.4 |
| **Consumption** | **78.2** | **85.4** | **87.2** | **100.8** | **114.8** | **132.2** | **133.1** |
| Public | 17.8 | 15.4 | 24.8 | 33.8 | 20.4 | 20.8 | 16.9 |
| Private | 60.4 | 70.0 | 62.4 | 67.0 | 94.4 | 111.4 | 116.2 |
| **External sector** | **-2.7** | **-0.4** | **-1.2** | **-1.2** | **-6.5** | **-20.5** | **-21.6** |
| Exports | 37.8 | 46.8 | 30.3 | 23.3 | 9.6 | 34.6 | 34.0 |
| Imports | -40.4 | -47.2 | -31.6 | -24.6 | -16.1 | -55.0 | -55.6 |

**Source:** IMF and domestic authorities data; projections based on authors' calculations.



Other services – notably distribution, hotels and restaurants – suffered from the crisis and continued to decline. Tourism remains highly sensitive to the bad publicity Zimbabwe has attracted and to limited airline accessibility. Visitor arrivals in the first half of 2002 were 739 000 compared with 1.45 million in the same period of 2001, reflecting the uncertainty and violence in the run-up to the presidential elections. Although total tourist arrivals in the first quarter of 2003, at just over one million, were 47 per cent higher than in the first quarter of 2002, this was more due to the below-average 2002 figure than to a solid recovery.

Persistent high inflation and concern about the land reform programme have drastically altered the structure of economic demand. Private gross capital formation, critical for economic growth and job creation, has declined in recent years – from 19.9 per cent of GDP in 1995 to -6.7 per cent in 2002 – reflecting the disastrous effect of the grab-and-take fever in the agricultural sector that has led to the destruction of most farming equipment.

Continuing cuts in real government spending to restore telecommunications, road and railway networks, electricity and water supplies and the health system produced negative gross fixed capital formation also in the public sector. Overall, gross capital formation is estimated to have further declined in 2003 and 2004 in percentage of GDP.

Matching the big drop in investment, consumption surged to well above annual production levels. Negative real interest rates and high recurrent budgetary expenditure accentuated this trend, pushing aggregate consumption to an estimated 132.2 per cent of GDP in 2003, and a projected 133.1 per cent in 2004.

External sector position continued to deteriorate, as net external demand worsened from -0.4 per cent of GDP

 © AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • A Read Only


in 1999 to an estimated -20.5 per cent in 2003. Sustained overvaluation of the Zimbabwe dollar and structural distortions in major export sectors continued to whittle down exports, from 30.3 per cent of GDP in 2000 to 9.6 per cent in 2002[1]. The rebound in export and import percentage over GDP in 2003 was due to the adjustment of the exchange rate to Z$824 per US dollar instead of Z$55, as dollar exports continued to fall during the year.

Poor export performance and low capital inflows produced a painful squeeze on imports. Total imports fell from 31.4 per cent of GDP in 2000 to 16 per cent in 2002. As with exports, the decline and rebound in the import/GDP ratio was due to the exchange rate effect.

A more accurate account of Zimbabwe's demand structure is hampered by lack of data. The main source, the Central Statistical Office (CSO), is in crisis after losing most of its key staff to the private sector and abroad. The severe economic crisis has also made the private sector disinclined to respond to national statistical questionnaires, whose return rate is sometimes as low as 20 per cent. As a result, this country survey was based on combined data from often divergent sources, including the CSO, the Reserve Bank, IMF publications and the authors' own estimates and projections. In addition, the extreme uncertainty of Zimbabwe's economic and political evolution hampers a macroeconomic forecast for 2005. In current economic circumstances, this would require arbitrary assumptions on governance development and economic policies that could result in a multiplicity of more or less plausible scenarios.

## Macroeconomic Policy

### *Fiscal and Monetary Policy*

Lack of fiscal restraint plus a very accommodating monetary policy are still the biggest threats to the country's macroeconomic good health. Support for investment and social sectors continues to decline in real terms as recurrent expenditure remains disproportionately high. Monetary financing of the deficit and sustained growth of credit to the private sector fuelled the 12-month money supply growth rate, which rose from 56.9 per cent in January 2001 to around 400 per cent by December 2003. Annual inflation reached an all-time high of 622.8 per cent in January 2004, up from 228 per cent in March 2003.

The fiscal deficit in 2003 is estimated at 3.7 per cent of GDP compared to 10.2 per cent in 2002. This is

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

| | 1995 | 1999 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants[a]** | **28.2** | **29.2** | **28.1** | **26.6** | **28.0** | **28.8** | **25.4** |
| Tax revenue | 23.4 | 26.7 | 25.4 | 24.6 | 26.4 | 27.4 | 24.0 |
| **Total expenditure and net lending[a]** | **44.6** | **38.7** | **48.8** | **34.7** | **38.2** | **32.5** | **29.3** |
| Current expenditure | 39.1 | 34.7 | 46.0 | 32.2 | 37.9 | 32.1 | 28.9 |
| *Excluding interest* | *29.9* | *24.4* | *29.0* | *24.3* | *28.0* | *27.5* | *22.7* |
| Wages and salaries | 11.1 | 13.5 | 16.9 | 13.4 | 12.9 | 16.0 | 13.3 |
| Interest | 9.3 | 10.3 | 17.1 | 7.9 | 9.9 | 4.7 | 6.2 |
| Capital expenditure | 2.9 | 2.8 | 1.8 | 2.5 | 0.3 | 0.4 | 0.4 |
| **Primary balance** | **-7.2** | **0.9** | **-3.6** | **-0.2** | **-0.3** | **1.0** | **2.3** |
| **Overall balance** | **-16.4** | **-9.5** | **-20.7** | **-8.1** | **-10.2** | **-3.7** | **-3.9** |

a. Only major items are reported.
**Source:** IMF and domestic authorities' data; projections based on authors' calculations.

1. The drop was also due to the distortion of using the official exchange rate of Z$55/US$ to calculate imports and exports. Two-thirds of all transactions took place on the parallel market at an average rate of Z$729 in 2002 and Z$3 900 in 2003.



© AfDB/OECD 2004 

OECD Browse_it Edition • Lecture seule • A Read Only

mainly due to artificially low interest rates and high revenues. Revenues grew as a result of bracket creep (delayed adjustment of income tax brackets for inflation) and better collection by the Zimbabwe Revenue Authority, which became operational in 2002 and introduced VAT on 1 January 2004. Customs revenue was much lower than budgeted, however, because the crisis reduced aggregate imports.

Low interest rates kept debt service costs down and helped reduce stock levels from 50.6 per cent of GDP at end-2000 to 14.4 per cent at end-2003. But the government budget concealed the impact of sizeable quasi-fiscal operations by the Reserve Bank of Zimbabwe (RBZ) to boost gold and tobacco productivity and support the Grain Marketing Board and other loss-making public enterprises. Quasi-fiscal operations also include use of the foreign exchange surrender at a rate of Z$55 per US dollar. Inclusion of such spending should have swelled the deficit to 11 per cent in 2003.



The structure of budgetary spending remains a major source of macroeconomic imbalance. Capital expenditure (including net lending), which averaged 11 per cent of total fiscal spending from 1995 until 2000, fell to about 7 per cent over the period 2001-2003, while the combined bill for wages and salaries and interest payments, though declining, was still a huge 56 per cent.

Although the government has attempted to improve investors' confidence in the 2004 budget, announcing in particular a cash budgeting framework to match expenditures to revenues, the articulation and implementation of a comprehensive reform programme remains of paramount importance. Streamlining the public sector by commercialisation and privatisation of state enterprises seems vital for economic stabilisation.

A bloated wage bill (itself a result of high inflation), an upsurge in the cost of domestic borrowing and increasing quasi-fiscal interventions in agriculture and other key export sectors are expected to boost expenditures in 2004. However, the surge in spending is projected to be lower than the skyrocketing rate of inflation, leading to a deficit of 3.9 per cent. Inflation is expected to remain highly sticky downwards, as fiscal deficits are mostly funded by domestic banks.

As regards monetary policy, the RBZ introduced a dual interest rate system in November 2002. Lending for productive and export sectors was set at concessional rates of 30, 10 and 5 per cent while rates for consumption borrowing were left market-determined. Lack of buyers for T-bills forced the bank to raise interest rates on longer-dated T-bills to around 100 per cent in April 2003. Although lending rates by commercial banks had risen to between 220 per cent and 600 per cent by the first week of January 2004, real interest rates remain negative and thus discourage saving.

For three years, the Zimbabwe dollar was pegged at an overvalued Z$55 per US dollar. In March 2003, the rate for most official market transactions by non-state entities was set at Z$824, still well below its market clearing value, estimated at around Z$5 000 in January 2004. Despite increased controls on commercial banks and the closure of *bureaux de change* in November 2002, rates on the parallel market continued to rise, reaching around Z$3 000-3 500 at the end of July 2003 and Z$6 000-6 500 at the end of the year.

In December 2003, the monetary authorities said they would adopt an auction system from 12 January 2004, obliging exporters to sell a quarter of their hard currency earnings at the fixed rate of Z$824 and another 25 per cent at the auction rate. They can keep the remaining half in their foreign currency accounts (FCA) for use within 21 days, after which they must offload the remainder in the market at the auction rate.

An acute shortage of Z$ banknotes, due to lack of hard currency to import paper and ink, developed during the first nine months of 2003 and threatened public order in August. The central bank eased the situation by printing bearer cheques in denominations of 5 000, 10 000 and 20 000, which are circulating as cash.

A new RBZ governor was appointed in November 2003 and the 2004 monetary policy announced on 18 December is expected to focus on inflation control,

 © AfDB/OECD 2004

A CD Browse_it Edition • Read Only • Lecture seule •



financial sector stability and foreign exchange generation. The dual interest rate system has been maintained, though the subsidised funding rate for targeted productive sectors has been set at 30 per cent[2]. As in the past, there is a risk that concessional funds may be diverted into non-productive and speculative uses, thus generating more inflation in the economy. Furthermore, the piecemeal measures envisaged by authorities cannot provide a lasting solution to the crisis. Without tight monetary policies and appropriate exchange-rate realignment, macroeconomic imbalances are unlikely to diminish and inflation in 2004 is expected to average 456 per cent, compared to an average rate of 377 per cent in 2003.

To curb speculative trading by the financial system, the new Reserve Bank governor tightened the central bank's accommodation of banks. This sparked a huge liquidity crisis in the last two weeks of 2003 and into January 2004, causing the collapse of Century Discount House on 3 January. At least eight banks were out of clearing in early January for failure to fund their batches under the new real time gross settlement (RTGS) arrangement, significantly dampening market confidence in the financial system. A major goal of monetary policy must be to restore this confidence.

## External Position

Despite major efforts over the past decade, Zimbabwe still has a restrictive trade regime, particularly on the capital account. A system of permits and monopolies operates for some exports: the Grain Marketing Board has a monopoly on maize and the RBZ on gold. The Minerals Marketing Council of Zimbabwe (MMCZ) controls most mineral exporting. The foreign exchange allocation system, eased in the early 1990s, has recently been revived in the form of stringent exchange controls as a way of regulating import growth.

Other government efforts to raise foreign exchange have included increasing the export surrender requirement to 50 per cent in March 2003, obliging the repatriation of export receipts through the official market and adopting the foreign exchange auction system in January 2004. The wide spread between official and parallel exchange rates means that such requirements, along with the existing obligation to deposit the foreign currency balance on a special RBZ-controlled account, serve as a tax on exporters. Furthermore, shortage of foreign exchange on the official market forced non-state importers to resort to the parallel one at a premium of over 600 per cent before introduction of the foreign exchange auction.

With the auction rate averaging Z$3 800 per US dollar in the first fortnight of trading from mid-January 2004, the gap between the official and parallel rate has narrowed and at the end of the month, the parallel rate was about Z$4 800. However, in spite of the initial enthusiasm of the business community, the auction system turned out to be highly controlled by the central bank with detrimental consequences for exporters. In particular, the controls included the rejections of bids considered to be unacceptably high and therefore potential stimulants for inflation. An additional control was to reject bids for currency that would be used for purposes not considered of high priority. The effect of these controls was that exporters had to sell 25 per cent of export proceeds at an unduly low weighted average auction rate, realising return on exports much lower than their costs. In addition, while some importers benefited from the lower cost of foreign currency compared to the one prevailing on the parallel market, others have been adversely affected by the prioritisation process that did not allow them to source the imports necessary to conduct their business operations.

Zimbabwe's external position has badly deteriorated since 2000. The impact of the foreign aid freeze and declining exports caused a dramatic foreign currency shortage that in turn reduced imports. High inflation, against an overvalued fixed exchange rate, harmed competitiveness and exports in 2002 were 36 per cent down on 2000. Exports in 2003 are estimated at half the 1996 figure.



2. Total cumulative support for productive sectors in 2004 will amount to some Z$750 billion, up 51 per cent from the Z$497 billion as at 30 September 2003.

OECD Browse_it Edition • Read Only • Lecture seule

Agricultural export sales fell by 22.4 per cent in 2002 – mainly due to the decline of tobacco, sugar and livestock that more than offset the small increase in horticulture – and in 2003 are estimated to have fallen a further 31.6 per cent. Mineral exports contracted by 23.8 per cent in 2002, as sales of gold and asbestos plunged. Nevertheless, in 2003 the drop was held to 11.4 per cent by a boom in platinum sales. Manufacturing exports, including cotton lint, declined by 11.9 per cent in 2002 and are estimated to have fallen 7.7 per cent in 2003.

The scarce foreign currency available for imports was mostly allocated to food to compensate for the fall in production of staples. Food imports rose from 3.3 per cent of total imports in 2000 to 16.7 per cent in 2002, crowding out key items such as raw materials (fuel, electricity) and production inputs (chemicals, equipment). Yet imports of transport equipment grew by a robust 8.8 per cent, with the distorted foreign exchange market in a hyperinflationary environment feeding an upsurge of motor vehicle imports, including luxury brands.

The trade deficit widened from 2.4 per cent of GDP in 2001 to an estimated 15.6 per cent in 2003. The worsening trade balance in percentage of GDP is also largely explained by the exchange rate adjustment in 2003 from Z$55 to Z$824 per US$.

Contrary to expectations, the new foreign exchange auction system has not so far created the necessary flexible conditions to boost export performance. The trade deficit is projected to widen in 2004, as exports, especially of tobacco and gold, are expected to fall more rapidly than imports.

Table 3 - **Current Account** (percentage of GDP)

| | 1995 | 1999 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | 1.2 | 4.6 | 3.7 | -2.4 | -4.5 | -15.6 | -16.8 |
| Exports of goods (f.o.b.) | 30.8 | 35.5 | 24.5 | 17.7 | 7.8 | 27.4 | 26.6 |
| Imports of goods (f.o.b.) | -29.6 | -30.9 | -20.8 | -20.1 | -12.4 | -43.0 | -43.4 |
| Services | 3.5 | 0.4 | -1.5 | -2.2 | -1.3 | | |
| Factor income | -4.5 | -6.6 | -5.3 | -3.7 | -1.4 | | |
| Current transfers | 1.7 | 2.1 | 1.7 | 1.3 | 1.3 | | |
| **Current account balance** | **-5.1** | **0.5** | **-1.4** | **-7.1** | **-5.9** | | |

**Source:** IMF and domestic authorities' data; projections based on authors' calculations.



The negative developments on the current account and the deterioration of the capital account since 2000 have exacerbated the foreign currency crisis. Foreign investment and long- and short-term capital inflows have fallen substantially due to the poor macroeconomic and socio-political environment and the private sector's loss of confidence. The exception is platinum, where Impala Platinum (the world's second largest producer) made a formal bid to increase its stake in Zimbabwe Platinum Mines (Zimplats) from 35.7 to 85.2 per cent. Short-term speculative inflows were marginally positive, with investors attracted by the strong performance of the Zimbabwe Stock Exchange (ZSE).

Another reason for deterioration of the capital account has been the continued withdrawal of donor funding. Since 2000, total external debt (excluding arrears) has begun to fall, reflecting the cutback in aid and lending by multilaterals. Foreign exchange shortages have made debt repayments increasingly difficult and by mid-1999 the government had defaulted on most of its external debts. The country's usable reserves averaged precarious levels of under US$20 million (about 3 days of imports) in 2003.

Foreign payment arrears have built up dramatically, from US$109 million in 1999 to US$1.5 billion at the end of 2002 (more than 40 per cent of it owed to multilaterals) and US$2.5 billion by the end of 2003. They were expected to worsen to US$4 billion by the end of 2004, further undermining the country's credit-worthiness in international markets. The IMF

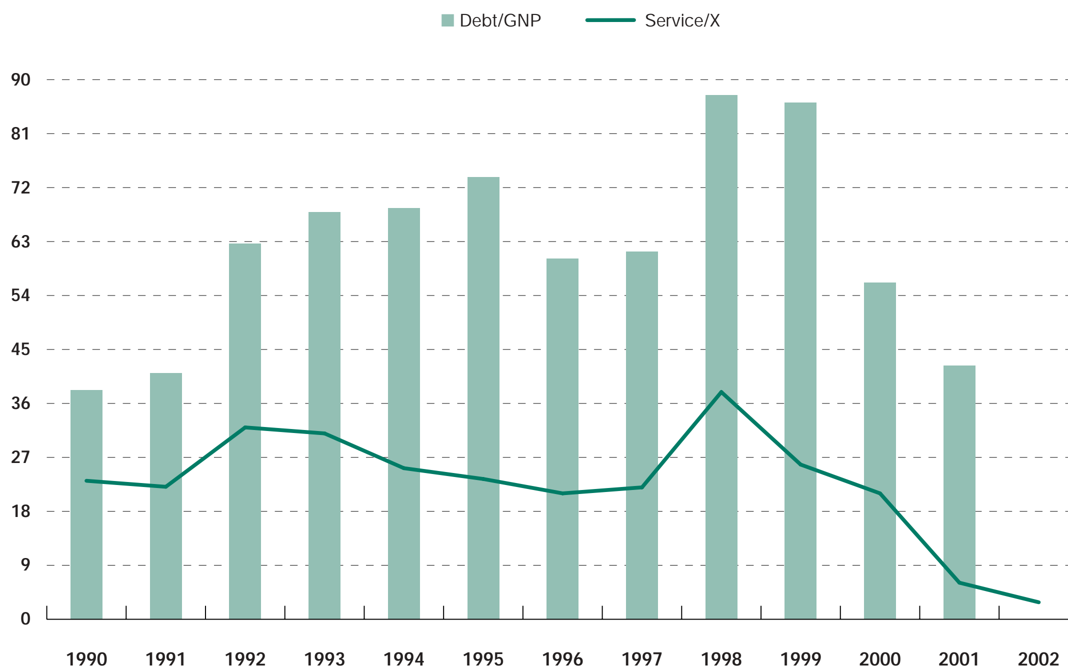


© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • A Read Only



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




**Source:** World Bank.



suspended technical assistance in June 2002 because of arrears of more than US$132 million and in November 2003 began compulsory withdrawal procedures for Zimbabwe. The balance-of-payments financing gap at the end of 2003 equalled nearly two years' exports at current levels. Closing this gap is a daunting task for the government.

## Structural Issues

Economic performance is hampered by deteriorating infrastructure due to lack of state funding, inappropriate pricing and acute shortage of foreign currency to buy spare parts. The country's only railway company cannot handle freight efficiently, the Wankie Colliery mine does not produce enough coal and electricity supply is unreliable. Only half the National Railways of Zimbabwe (NRZ) 60 locomotives were functional at the end of 2003, while 120 were needed to meet demand. Poor maintenance and lack of qualified personnel have steadily increased delays and accidents.

The Confederation of Zimbabwe Industries reacted in November 2003 to the slowness of reforms with efforts to pool resources to solve the private sector's most urgent problems. One proposal was that railway users issue bills guaranteed by the Reserve Bank to raise local and foreign currency to get locomotives and wagons back into service. But this requires a stable cash flow, which is not guaranteed in the current macroeconomic environment[3].

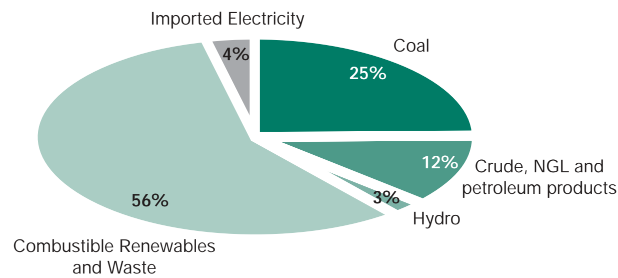
Only one excavator is used for open-cast coal mining at the Wankie Colliery, which operates at only half-capacity. Despite its huge reserves, Zimbabwe is forced to import more expensive coal from Botswana. Since coal is used for tobacco drying, sugar processing, cement production and especially electricity generation, the shortage affects the whole economy. Electricity comes,

3. Major exporters are also pooling foreign currencies to help NOCZIM (National Oil Company of Zimbabwe) import fuel.

© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

Figure 7 - **Structure of Domestic Energy Supply in 2001**




**Source:** International Energy Agency.

in roughly equal shares, from thermal plants, the Kariba hydro power plant and imports from Cahora Bassa (Mozambique), SNEL (DRC) and ESKOM (South Africa) through the Southern African Power Pool (SAPP).

Zimbabwe has failed to pay outstanding debts and arrears, forcing Mozambique and South Africa to sharply cut back deliveries since January 2003 and the Zimbabwe Electricity Supply Authority (ZESA) to engage in load-shedding and cut-offs. In order to raise funds to settle external debts, ZESA has asked exporters to pay their bills in foreign currency. On top of these operational problems, SAPP's energy surplus is expected to vanish by 2007. Internal resources to maintain the current system and finance new investments are clearly insufficient. Over 61 per cent of the population (82 per cent in rural areas) are still without access to electricity.

To solve these problems, the government has initiated a reform programme to open up the power sector to private capital. Under the January 2002 Electricity Act, ZESA was unbundled into three companies (generation, transmission and distribution). In mid-2003, the cabinet approved dilution of state control of the generating company (Zimbabwe Power Company, ZPC), though the Act limits private participation to 49 per cent.

Other provisions of the Act – establishment of an Electricity Regulatory Commission (ZERC), a pricing study and unbundling generation, transmission and distribution tariffs and their regulations – have been greatly delayed. Uncertainty over the structure and current level of tariffs also increases the regulatory risks faced by potential investors. Appointing a regulator, doing the pricing study and clarifying the tariff structure are immediate priorities for obtaining badly-needed financing to increase capacity. In the longer run, the government intends to acquire a 25 per cent stake in the Cahora Bassa dam and expand the Hwange power station.

Liquid fuel supplies have also been under pressure since 1999 as foreign exchange has become scarcer. Libya ended the special agreement to barter oil against Zimbabwe's physical assets (including land) and equities after Harare failed to keep its side of the deal.

In order to fight the burgeoning black market in fuel, the government introduced a dual pricing system in 2003. Public sector entities and other critical economic operators are entitled to buy fuel at a regulated price from NOCZIM (National Oil Company of Zimbabwe), whereas private sector companies (BP, Caltex, Mobil, Shell, and Total) are allowed to import and distribute their own supplies independently. Although the government has gradually eased the rules, controlled prices remain far too low to clear the market. In November 2003, the regulated price was Z$450 per litre (compared with Z$76 in February) but the parallel market was asking more than Z$3 000.

In early 2002, 30 state-owned enterprises (SOEs) were awaiting privatisation, after the sale of 15 since 1999. Selling off the commercial part of the Grain Marketing Board (GMB) was planned and the Privatisation Agency of Zimbabwe (PAZ) has presented for cabinet approval



 © AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



a concession agreement for NRZ. However, the PAZ, does not have autonomous powers and can only execute cabinet decisions, a predicament that favours political interferences in SOE management. Privatisation came to a complete halt in 2003 because of the poor economic climate and withdrawal of donors' support. In November, the government said it would suspend it indefinitely and instead restructure NOCZIM and Air Zimbabwe and create a regulatory agency for the oil sector.

Highly unequal land distribution has threatened social cohesion since independence, when about 4 500 big commercial farms were owned mainly by whites on 11 million hectares of the most fertile and best-irrigated land, while 1.2 million households (half the then population) lived on 16.3 million hectares of poor-quality, drought-prone communal land. About 40-50 per cent of the high-potential commercial arable land was not used for various reasons, including restrictions on subdivision, allocation of water rights and absence of a land tax, according to the World Bank.

Agrarian reform has become the government's top priority since June 2000. The Fast-Track Development Programme covers 5 million hectares with a targeted 150 000 families, compared to 3.5 million hectares and 73 000 families resettled in the previous two decades. Under the programme, compensation is based on capital improvement and not on land value. The government says the programme has achieved its main goal of redistributing land to 300 000 small-scale (A1) farmers over the past three years. However, in 2002, an audit led by land reform minister Flora Buka revealed gross violations of the "one man, one farm" principle by prominent politicians who allegedly received several large farms.

President Robert Mugabe disputed the finding and named a close ally, Charles Utete, to do a second audit, which was completed in October 2003 and remains restricted, though parts of it have been leaked to the press. It puts beneficiaries under the A1 model at 127 192 and at only 7 260 under the commercial farmers (A2) model (which aimed for 50 000 new farmers). There are half as many more A2 farmers than there are white farmers but the total area available to them for production is only 2.2 million hectares, compared with more than 11 million used by the whites. So even if the land was made productive (highly doubtful under current constraints), commercial production would be about a fifth of the previous year's production.

The Utete report also says the government has seized some 8.6 million hectares of land on 4 324 farms and that 1 323 white farmers remain on their land, though only 600 are fully operational, according to the Commercial Farmers Union. About 300 000 of the total 330 000 commercial farm worker families have been laid off. Abuses are also rife in application of the rules on loss of absentee status, ownership of multiple properties and about farms close to mainly indigenous areas.

Even on already resettled land, tenure has not been guaranteed. Instead of title deeds, the government has offered 99-year leases and this absence of collateral has dramatic consequences on ability to finance crop production. About 270 Zimbabwean farmers have moved to neighbouring Zambia and to Mozambique (especially the northern province of Manica), partly drawn by special programmes offered by the governments there.

## Political and Social Context

The political crisis deepened after President Robert Mugabe was sworn in for another term in March 2002 after an election the Commonwealth Observer Group said was held in a "climate of fear". Zimbabwe was suspended from the Commonwealth for a year (until March 2003) and the United States and the European Union imposed "smart sanctions", targeting selected officials of the government and the ruling Zimbabwe African National Union Patriotic Front, ( ZANU-PF).

In the run-up to the December 2003 Commonwealth summit in Abuja, Nigerian President Olusegun Obasanjo discreetly lobbied Mugabe to get him to resume negotiations with the opposition Movement for

OECD Browse_it Edition • Read Only • Lecture seule

Democratic Change (MDC). This effort proved to be largely unproductive, the political deadlock remained and, on the recommendation of a Commonwealth foreign ministers' working group, Mugabe was not invited to the summit and in December announced Zimbabwe was withdrawing from the Commonwealth.

Political violence and intimidation reportedly continued in 2003. The government won two parliamentary by-elections, though the MDC won two in Harare (Kuwadzana and Highfields) in March 2003, as well as 137 out of 222 municipal council seats and six out of seven executive mayoralties. Stay-aways organised by the MDC between March and June 2003 – the biggest anti-government protests for more than two years – shut down shops, banks, factories and other businesses.

Using the harsh Public Order and Security Act, government-sponsored militia, police and troops responded by arresting and roughing up trade union and civil society activists, including several MPs. The interior minister suspended the mayor of Harare after unspecified allegations of misconduct. Publication of the *Daily News*, the country's only independent daily paper, was suspended in July and then halted in September because it supposedly did not have the necessary authorisation. Reporters Without Borders denounced the closure and the arbitrary arrest of five of the paper's directors as a violation of press freedom.



President Mugabe continues to divide international opinion. The key to his success has been to keep international focus on the land distribution issue and away from the conduct of the 2002 presidential elections, human rights abuses and the undermining of democracy and the rule of law. Zimbabwe's policies have affected the rest of the region and threaten the success of the ambitious NEPAD (New Partnership for Africa's Development) initiative, which includes peer review concerning governance.

South Africa has been a leader of efforts to improve governance in Africa, but has taken a cautious line on Zimbabwe. South African public opinion supports the land reform and the authorities fear a strong stand against the Zimbabwean government could have sub-regional repercussions. During the Abuja summit, President Thabo Mbeki argued that bringing Zimbabwe back into the international fold would be the best way to solve the crisis. A small but growing number of African countries, such as Botswana and Kenya, are increasingly critical, however, and have called for the African Union to conduct a peer review of Zimbabwe. Others, such as Namibian President Sam Nujoma, consider Mugabe a heroic figure in the independence struggle.

On the domestic front, the MDC is willing to negotiate with Mugabe only if an interim government is formed to organise new elections. Mugabe is very unlikely to leave office voluntarily and there is little indication he would consider resigning even if granted blanket immunity against future prosecution. Hopes rose in late 2003 that he was moving towards a compromise when he appointed a new vice-president, General Vitalis Zvinavashe, the outgoing head of the Zimbabwe Defence Forces (ZDF). But the fact that Zvinavashe said publicly in 2002 that the army would not salute any political leader without liberation war credentials suggested ZANU-PF hardliners still have the upper hand. Civil society, including business associations and trade unions, is increasingly concerned about the future but do not seem to have enough clout, especially in rural areas. Church leaders have emerged as the only mediators.

The long-running crisis and the spread of HIV/AIDS are wiping out gains in life expectancy made over in the last 20 years and increasing deep divisions in an already fragile social fabric – the richest 20 per cent of the population receive 60 per cent of total income – and burdening already collapsing health-care and education systems. The UNDP Human Development Index ranks Zimbabwe as a "low human development" country.

Poverty has worsened since 2000, due to the economic crisis, strained relations with donor groups, the impact of the land reform and the severe drought, and 5.5 million people face starvation in 2004. GMB commercial imports leave a cereals deficit of 610 000 tonnes to be covered by food aid, according to the



© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • An OECD Read Only



UNDP. Donors have pledged 140 000 tonnes, leaving a gap of 470 000 tonnes for the 2003/04 marketing year. The humanitarian agencies' funding shortfall at the end of 2003 was US$110 million, 57 per cent of the amount sought, mainly due to lack of co-operation between the government and the international community, which, in turn, hampers needs assessment, planning and resource mobilisation.

Vulnerable groups in Zimbabwe are also threatened by poor water quality and sanitation. Urban water and sewage systems are on the verge of collapse for want of foreign currency to buy vital spares and water purification chemicals, according to the UNDP humanitarian contingency planning mission in Zimbabwe. Urban water systems have also suffered from the growing pressures of rural-urban migration and from poor maintenance and can barely provide the required quantity and quality of potable water, as shown by regular cuts in supply and increasingly frequent outbreaks of disease. Rural water supply suffers from poor outreach services, inadequate maintenance and staff shortages. Serious cholera outbreaks have occurred in the Zambezi valley, one of the country's poorest areas.

The health sector is collapsing, hit by a brain drain, deteriorating infrastructure and shortages of medicine. Several hospitals and sections of many others closed down in 2003 for lack of personnel, equipment, medicine and other facilities. An estimated 24.6 per cent (1.8 million) of the adult population had HIV/AIDS at the end of 2003, the second highest figure in the world after Botswana, according to UNAIDS. Some 56.5 per cent of all infected adults aged 15 to 49 were women. The mortality rate rose from 18.29 per thousand in 1998 to 34.14 in 2001. These figures are expected to increase as a result of the 2002 food crisis that increased vulnerability to infection and exposed those already ill to secondary infections as their resistance declined for lack of proper food.

The epidemic is concentrated along major highways and the risk of contagion has risen dramatically with the food insecurity and consequent increase of high risk behaviour such as prostitution or migration. Another serious effect has been the number of orphans – some 761 000 (aged 0 to 14 years) at the end of 2003. The predicted 1.2 million by 2010 (almost 10 per cent of the population) are likely to have a severe impact on social services and social cohesion. An FAO study says 10 per cent of the agricultural labour force was lost in 2000 and up to 23 per cent may be by 2010. To fight the threat, an AIDS levy (a 3 per cent pay-as-you-earn tax) and corporate taxes were introduced in 2000. Parliament set up an AIDS Council in 2001 to implement the national HIV/AIDS strategy and disburse funds to district AIDS committees. Lack of a clear agenda has so far prevented implementation of an effective strategy and mismanagement and lack of capacity at district level have prevented effective use of the funds. Heavily-subsidised government-run voluntary counselling and testing (VCT) centres may also be shut down due to lack of foreign currency to buy essential drugs. Prospects for fighting the disease are bleak as more and more people focus on short-term survival and government capacity remains poor.

Current political and economic problems, HIV/AIDS, population displacement and resettlement have all eroded the tremendous progress made in education since independence. The whole sector suffers from under-spending and loss of qualified teachers and managers due to HIV/AIDS and migration. At least half a million professionals, mainly teachers and health workers, have left the country in the past three years, complaining of low pay and lack of opportunity.

The decline in quality and delivery of education is especially severe in areas affected by the land reform. Many schools in newly resettled areas lack basic infrastructure, water, sanitation and textbooks and are 30 per cent short of qualified teachers. Food shortages make things worse and many teachers and children are spending more time and effort looking for food for their families. Poor transport also seriously undermines school attendance. School fees keep vulnerable children, especially orphans, out of school, with 39 per cent of primary-age children giving fees as the main reason for dropping out. In higher grades, the most affected by this are girls, thus cancelling out progress made towards educational gender parity in the 1980s.



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

# Part Three

An OECD Browse_it Edition • Read Only • Lecture seule

An OECD Browse_it Edition • Read Only • Lecture seule

# Statistical Annex

An OECD Browse_it Edition • Read Only • Lecture seule

An OECD Browse_it Edition • Lecture seule • Read Only

## List of Tables

Table 1 – Basic Indicators, 2002
Table 2 – Real GDP Growth Rates, 1995-2005
Table 3 – Demand Composition, 2002
Table 4 – Public Finances, 2002
Table 5 – Monetary Indicators
Table 6 – Current Account, 2002
Table 7 – Exports, 2001
Table 8 – Diversification and Competitiveness
Table 9 – International Prices of Exports, 1997-2003
Table 10 – Foreign Direct Investments, 1997-2002
Table 11 – Aid Flows, 1997-2002
Table 12 – External Debt Indicators
Table 13 – Demographic Indicators
Table 14 – Poverty and Income Distribution Indicators
Table 15 – Basic Health Indicators
Table 16 – Sanitary Conditions
Table 17 – Major Diseases
Table 18 – Basic Education Indicators
Table 19 – School Enrolment
Table 20 – Corruption Perception Index, 1998-2003
Table 21 – Political Troubles
Table 22 – Softening of the Regime
Table 23 – Hardening of the Regime



© AfDB/OECD 2004 

OECD Browse_it Edition • Read Only • Lecture seule

## 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 2002 is from April 2002 to March 2003.

### Table 7. Exports, 2001

The table is based on exports disaggregated 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 disaggregated 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 (1997-2001) (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



© AfDB/OECD 2004

OECD Browse_it Edition • An OECD Read Only • Lecture seule



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 2 100 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 live 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 20. Corruption Perception Index, 1998-2003

The Corruption Perception Index (CPI) is a composite indicator based on surveys of business people and assessments of country analysts. 17 sources



© AfDB/OECD 2004

OECD Browse_it Edition • A Read Only • Lecture seule

were included in the 2003 CPI, originating from 13 independent institutions: Freedom House, The Economist Intelligence Unit, Pricewaterhouse Coopers, The Institute for Management Development, the Political and Economic Risk Consultancy, the World Bank, the World Economic Forum, Columbia University, Gallup International, Information International, Multilateral Development Bank, the Business Environment and Enterprise Performance Survey and the World Markets Research Centre.

A background paper presenting the methodology and validity of the CPI is available on the Transparency International web site:
http://www.transparency.org/cpi/2003/dnld/framework.pdf

## 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 qualitative information derived from the newspaper were either computed as 0-1 variables with 0 being the non-occurrence of the event and 1 its occurrence or as 4-value indicators (with 0: non-occurrence, 1: occurrence but weak intensity, 2: medium intensity and 3: strong intensity). From these indicators, three main political indexes were constructed: an index of conflicts, a measure of the softening of the political regime and one of its hardening.



## Table 21. 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 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 coups d'état**

## Table 22. Softening of the Political Regime

- **Lifting of state of emergency**
- **Releases of political prisoners**
- **Measures in favour of human rights**
- **Improvement of political governance (fight against corruption…)**
- **Relinquishment of political persecution, rehabilitation, return from exile**
- **Political opening (measures in favour of democracy)**

1 = Discussion with the opposition,
2 = Entry of the opposition to power,
3 = Opening of a regime to elections.

1. Dessus, S., D. Lafay and C. Morrisson (1994), "A Politico-economic Model for Stabilisation in Africa", *Journal of African Economies*.


© AfDB/OECD 2004

OECD Browse_it Edition • Read Only • A Lecture seule

- **Lifting of bans on strikes or demonstration**

- **Lifting of bans on press or public debates**

*Tableau 23. Hardening of the Political Regime*

- **State of emergency**

- **Arrests, incarcerations**

0 = non-occurrence,
1 = between 1 and 10 (non inclusive),
2 = between 10 and 100 (non inclusive),
3 = higher than 100.

- **Additional resources for the police, propaganda or censorship**

- **Toughening of the political environment (expulsions, dismissals, curfew, and 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, 2002**

| | 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 1995-2002) |
|---|---|---|---|---|---|---|
| **Algeria** | **31 266** | **2 382** | **13. 1** | **55 921** | **1 789** | **3.2** |
| Angola | 13 184 | 1 247 | 10.6 | 11 204 | 850 | 7.6 |
| Benin | 6 558 | 113 | 58.2 | 2 704 | 412 | 5.3 |
| **Botswana*** | **1 770** | **582** | **3.0** | **5 057** | **2 857** | **5.5** |
| **Burkina Faso** | **12 624** | **274** | **46.1** | **2 811** | **223** | **4.9** |
| Burundi | 6 602 | 28 | 237.2 | 628 | 95 | -0.9 |
| **Cameroon** | **15 729** | **475** | **33.1** | **10 991** | **699** | **4.4** |
| Cape Verde | 454 | 4 | 112.6 | 618 | 1 361 | 6.7 |
| Central Afr. Rep. | 3 819 | 623 | 6.1 | 1 057 | 277 | 1.8 |
| Chad | 8 348 | 1 284 | 6.5 | 1 974 | 236 | 4.6 |
| Comoros | 747 | 2 | 334.2 | 248 | 332 | 2.2 |
| Congo | 3 633 | 342 | 10.6 | 3 014 | 830 | 2.9 |
| Congo, Dem. Rep. | 51 201 | 2 345 | 21.8 | 5 498 | 107 | -2.2 |
| **Côte d'Ivoire** | **16 365** | **322** | **50.8** | **11 695** | **715** | **2.8** |
| Djibouti | 693 | 23 | 29.9 | 592 | 854 | -0.1 |
| **Egypt*** | **70 507** | **1 001** | **70.4** | **84 829** | **1 203** | **4.8** |
| Equatorial Guinea | 481 | 28 | 17.1 | 2 124 | 4 416 | 29.1 |
| Eritrea | 3 991 | 118 | 33.9 | 644 | 161 | 2.3 |
| **Ethiopia*** | **68 961** | **1 104** | **62.4** | **6 041** | **88** | **5.0** |
| **Gabon** | **1 306** | **268** | **4.9** | **4 951** | **3 791** | **1.0** |
| Gambia | 1 388 | 11 | 122.9 | 354 | 255 | 3.2 |
| **Ghana** | **20 471** | **239** | **85.8** | **6 160** | **301** | **4.3** |
| Guinea | 8 359 | 246 | 34.0 | 3 215 | 385 | 4.2 |
| Guinea Bissau | 1 449 | 36 | 40.1 | 203 | 140 | -1.1 |
| **Kenya** | **31 540** | **580** | **54.3** | **12 309** | **390** | **2.1** |
| Lesotho | 1 800 | 30 | 59.3 | 804 | 447 | 3.3 |
| Liberia | 3 239 | 111 | 29.1 | ... | ... | ... |
| Libya | 5 445 | 1 760 | 3.1 | 19 204 | 3 527 | 1.0 |
| Madagascar | 16 916 | 587 | 28.8 | 4 560 | 270 | 1.6 |
| Malawi | 11 871 | 118 | 100.2 | 1 928 | 162 | 4.1 |
| **Mali** | **12 623** | **1 240** | **10.2** | **3 302** | **262** | **4.9** |


© AfDB/OECD 2004
An OECD Browse_it Edition • Read Only • Lecture seule

Table 1 - **Basic Indicators, 2002** (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 1995-2002) |
|---|---|---|---|---|---|---|
| Mauritania | 2 807 | 1 026 | 2.7 | 990 | 353 | 4.3 |
| **Mauritius** | **1 210** | **2** | **593.1** | **4 736** | **3 914** | **5.0** |
| **Morocco** | **30 072** | **447** | **67.3** | **36 094** | **1 200** | **2.4** |
| **Mozambique** | **18 537** | **802** | **23.1** | **3 599** | **194** | **7.9** |
| Namibia | 1 961 | 824 | 2.4 | 2 870 | 1 464 | 3.3 |
| Niger | 11 544 | 1 267 | 9.1 | 2 177 | 189 | 3.4 |
| **Nigeria** | **120 911** | **924** | **130.9** | **44 272** | **366** | **2.9** |
| Rwanda | 8 272 | 26 | 314.0 | 1 735 | 210 | 12.2 |
| São Tomé et Principe | 157 | 1 | 162.9 | 54 | 344 | 2.6 |
| **Senegal** | **9 855** | **197** | **50.1** | **4 985** | **506** | **4.8** |
| Seychelles | 83 | 0 | 181.3 | 698 | 8 460 | 3.6 |
| Sierra Leone | 4 764 | 72 | 66.4 | 784 | 165 | -6.4 |
| Somalia | 9 480 | 638 | 14.9 | ... | ... | ... |
| **South Africa** | **44 759** | **1 221** | **36.7** | **106 339** | **2 376** | **2.7** |
| Sudan | 32 878 | 2 506 | 13.1 | 13 987 | 425 | 6.1 |
| Swaziland | 1 069 | 17 | 61.6 | 1 195 | 1 118 | 2.9 |
| **Tanzania** | **36 276** | **945** | **38.4** | **9 699** | **267** | **4.6** |
| Togo | 4 801 | 57 | 84.5 | 1 364 | 284 | 3.0 |
| **Tunisia** | **9 728** | **164** | **59.5** | **21 155** | **2 175** | **4.6** |
| **Uganda*** | **25 004** | **241** | **103.7** | **5 907** | **236** | **6.9** |
| **Zambia** | **10 698** | **753** | **14.2** | **3 697** | **346** | **2.4** |
| **Zimbabwe** | **12 835** | **391** | **32.8** | **17 712** | **1 380** | **-1.7** |
| **Africa** | **831 041** | **30 043** | **27.7** | **548 686** | **671** | **3.4** |

**Note:** *GDP data given in Fiscal year n-1/n.
**Sources:** Population: United Nations, Population Division, 2002, World Population Prospects, The 2002 Revision, Highlights.
Land area: African Development Indicators, 2002 World Bank.
GDP: Various domestic authorities and IMF, World Economic Outlook (September 2003).





An OECD Browse_it Edition • Read Only • Lecture seule

## Table 2 - Real GDP Growth Rates, 1995-2005

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 (e) | 2004 (p) | 2005 (p) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Algeria** | **3.8** | **3.8** | **1.1** | **5.1** | **3.2** | **2.2** | **2.6** | **4.1** | **6.4** | **4.1** | **4.2** |
| Angola | 10.4 | 11.2 | 7.9 | 6.8 | 3.3 | 3.0 | 3.2 | 15.3 | 4.4 | 11.4 | ... |
| Benin | 4.6 | 5.9 | 5.8 | 4.6 | 4.7 | 5.8 | 5.0 | 6.0 | 5.6 | 6.5 | 6.5 |
| **Botswana*** | **3.2** | **5.5** | **5.6** | **8.1** | **4.1** | **6.6** | **8.5** | **2.2** | **6.7** | **4.9** | **4.7** |
| **Burkina Faso** | **4.0** | **6.0** | **4.8** | **6.2** | **5.8** | **2.2** | **5.8** | **4.6** | **6.3** | **4.8** | **5.9** |
| Burundi | -7.9 | -8.0 | 0.0 | 4.7 | -0.9 | -1.1 | 2.2 | 4.5 | -0.5 | 5.4 | 5.7 |
| **Cameroon** | **3.1** | **5.0** | **5.1** | **4.5** | **4.2** | **4.8** | **4.8** | **4.1** | **4.2** | **3.7** | **3.8** |
| Cape Verde | 7.5 | 5.5 | 8.5 | 8.0 | 8.9 | 6.6 | 3.8 | 4.6 | 5.0 | 5.1 | 5.0 |
| Central Afr. Rep. | 4.9 | -8.1 | 7.5 | 3.9 | 3.6 | 1.8 | 1.0 | 0.8 | -0.7 | 5.8 | 3.7 |
| Chad | 0.4 | 3.1 | 4.2 | 7.7 | 2.3 | 1.0 | 8.5 | 9.7 | 10.9 | 42.7 | 15.3 |
| Comoros | 8.9 | -1.3 | 4.2 | 1.2 | 1.9 | -1.1 | 1.9 | 2.5 | 2.5 | 3.0 | 3.5 |
| Congo | 4.0 | 4.3 | -0.6 | 3.7 | -3.0 | 8.2 | 3.6 | 3.5 | 2.0 | 7.0 | 3.0 |
| Congo, Democratic Republic | 0.7 | -1.0 | -5.6 | -1.6 | -4.3 | -6.2 | -2.1 | 3.0 | 5.0 | 6.0 | ... |
| **Côte d'Ivoire** | **7.1** | **6.9** | **5.6** | **5.4** | **1.6** | **-2.3** | **0.1** | **-1.6** | **-2.3** | **0.8** | **1.1** |
| Djibouti | -3.5 | -4.1 | -0.7 | 0.1 | 2.2 | 0.7 | 1.9 | 2.6 | 3.0 | 3.1 | 3.3 |
| **Egypt*** | **4.7** | **5.0** | **5.3** | **5.6** | **6.1** | **5.4** | **3.5** | **3.2** | **3.1** | **2.6** | **3.9** |
| Equatorial Guinea | 14.3 | 31.8 | 80.7 | 14.6 | 30.6 | 15.2 | 45.3 | 13.3 | 15.6 | 10.2 | 46.9 |
| Eritrea | 2.7 | 9.4 | 7.7 | 1.9 | 0.0 | -13.2 | 10.2 | 1.7 | 5.3 | 7.9 | 3.4 |
| **Ethiopia*** | **6.2** | **10.6** | **5.1** | **-1.4** | **6.0** | **5.4** | **7.7** | **1.2** | **-3.8** | **7.0** | **4.4** |
| **Gabon** | **5.0** | **3.6** | **5.7** | **3.5** | **-8.9** | **-1.9** | **2.0** | **0.0** | **2.2** | **1.8** | **2.4** |
| Gambia | -3.2 | 5.9 | 4.9 | 3.7 | 6.5 | 5.5 | 5.7 | -3.0 | 7.3 | 5.5 | 5.0 |
| **Ghana** | **4.0** | **4.6** | **4.2** | **4.7** | **4.4** | **3.7** | **4.2** | **4.5** | **5.2** | **5.6** | **5.5** |
| Guinea | 4.7 | 5.1 | 5.0 | 4.8 | 4.6 | 1.9 | 3.8 | 4.2 | 3.6 | 5.0 | 5.7 |
| Guinea Bissau | 4.4 | 4.6 | 5.5 | -28.1 | 8.0 | 9.5 | 0.2 | -7.2 | 2.4 | 2.9 | 3.5 |
| **Kenya** | **4.4** | **4.6** | **2.6** | **1.8** | **1.4** | **-0.2** | **1.2** | **1.1** | **1.4** | **3.2** | **3.6** |
| Lesotho | 6.1 | 9.1 | 4.8 | -3.3 | 0.4 | 2.2 | 3.4 | 4.5 | 3.9 | 4.5 | 4.0 |
| Liberia | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Libya | -0.3 | 3.3 | 5.2 | -3.6 | 0.7 | 2.3 | 0.5 | -0.2 | 5.6 | 2.8 | ... |
| Madagascar | 1.7 | 2.1 | 3.7 | 3.9 | 4.7 | 4.8 | 6.0 | -12.7 | 6.0 | 6.0 | 6.0 |
| Malawi | 16.7 | 7.3 | 3.8 | 3.3 | 4.1 | 1.1 | -4.2 | 1.9 | 6.5 | 5.1 | 5.4 |
| **Mali** | **1.8** | **6.8** | **4.9** | **8.0** | **5.7** | **-3.2** | **11.9** | **3.9** | **6.1** | **3.5** | **4.6** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## Table 2 - Real GDP Growth Rates, 1995-2005 (cont.)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 (e) | 2004 (p) | 2005 (p) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mauritania | 4.6 | 5.7 | 2.8 | 3.9 | 5.2 | 5.2 | 4.0 | 3.3 | 5.4 | 6.1 | 6.0 |
| **Mauritius** | **4.5** | **5.6** | **5.6** | **5.7** | **2.3** | **9.3** | **5.6** | **1.9** | **4.3** | **4.8** | **5.2** |
| **Morocco** | **-6.6** | **12.2** | **-2.2** | **6.8** | **-0.1** | **1.0** | **6.3** | **3.2** | **5.8** | **2.6** | **4.0** |
| **Mozambique** | **4.3** | **7.1** | **11.1** | **11.9** | **7.3** | **1.5** | **13.0** | **7.7** | **6.8** | **8.6** | **7.3** |
| Namibia | 4.1 | 3.1 | 4.3 | 3.3 | 3.3 | 3.4 | 2.4 | 2.7 | 3.7 | 4.7 | 4.0 |
| Niger | 2.6 | 3.4 | 2.8 | 10.4 | -0.6 | -1.4 | 7.1 | 3.0 | 4.0 | 4.1 | 4.1 |
| **Nigeria** | **2.6** | **6.5** | **3.1** | **0.3** | **1.5** | **5.8** | **2.8** | **0.5** | **5.0** | **3.7** | **3.8** |
| Rwanda | 35.2 | 12.7 | 13.8 | 8.9 | 7.6 | 6.0 | 6.7 | 9.4 | 3.2 | 6.0 | 6.0 |
| São Tomé et Principe | 2.0 | 1.5 | 1.0 | 2.5 | 2.5 | 3.0 | 4.0 | 4.1 | 5.0 | 5.0 | 5.0 |
| **Senegal** | **5.2** | **5.1** | **5.0** | **5.7** | **5.0** | **5.6** | **5.6** | **1.1** | **6.2** | **6.3** | **5.8** |
| Seychelles | 0.4 | 10.1 | 12.0 | 5.7 | -1.0 | 4.8 | -2.3 | 0.3 | -5.0 | -2.1 | 1.1 |
| Sierra Leone | -10.0 | -24.8 | -17.6 | -0.8 | -8.1 | 3.8 | 5.4 | 6.3 | 6.5 | 6.8 | 7.1 |
| Somalia | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **South Africa** | **3.0** | **4.3** | **2.6** | **0.8** | **2.1** | **3.4** | **2.2** | **3.5** | **2.0** | **2.5** | **3.1** |
| Sudan | 3.3 | 6.4 | 9.0 | 6.4 | 6.9 | 6.5 | 5.3 | 5.0 | 6.2 | 6.5 | 4.8 |
| Swaziland | 3.6 | 3.8 | 4.0 | 3.2 | 3.4 | 2.3 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 |
| **Tanzania** | **3.6** | **4.2** | **3.3** | **4.0** | **4.7** | **4.9** | **5.7** | **6.2** | **5.2** | **4.8** | **4.7** |
| Togo | 6.9 | 9.7 | 4.3 | -2.1 | 2.9 | -0.8 | 0.6 | 2.9 | 3.5 | 3.9 | 3.8 |
| **Tunisia** | **2.4** | **7.1** | **5.4** | **4.8** | **6.1** | **4.7** | **4.9** | **1.7** | **5.5** | **5.2** | **5.0** |
| **Uganda*** | **11.9** | **8.5** | **5.1** | **4.7** | **7.9** | **5.3** | **5.5** | **6.6** | **4.7** | **5.0** | **4.8** |
| **Zambia** | **-2.8** | **6.6** | **3.3** | **-1.9** | **2.2** | **3.6** | **4.9** | **3.3** | **3.9** | **2.4** | **3.6** |
| **Zimbabwe** | **-0.6** | **8.6** | **3.8** | **2.9** | **-0.7** | **-5.1** | **-7.4** | **-13.0** | **-18.7** | **-13.8** | ... |
| **Africa** | **3.1** | **5.3** | **3.5** | **3.2** | **3.0** | **3.2** | **3.6** | **2.9** | **3.7** | **4.3** | **4.4** |

**Note:** *Fiscal year n-1/n.
**Sources:** Various domestic authorities; IMF, World Economic Outlook (September 2003) and authors' estimates and predictions.



© AfDB/OECD 2004



An OECD Browse_it Edition • Lecture seule • Read Only

Table 3 - **Demand Composition, 2002** (percentage of GDP)

| | Final Consumption | | | Gross Capital Formation | | | External Sector | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Private | Public | Total | Private | Public** | Balance | Exports | Imports |
| **Algeria** | **59.6** | **44.2** | **15.3** | **30.4** | **20.3** | **10.1** | **10.0** | **35.6** | **25.6** |
| Angola | 60.8 | 25.3 | 35.5 | 32.2 | 25.4 | 6.9 | 6.9 | 76.5 | 69.6 |
| Benin | 94.0 | 81.0 | 13.0 | 17.8 | 10.6 | 7.2 | -11.8 | 14.3 | 26.1 |
| **Botswana*** | **61.9** | **28.8** | **33.1** | **26.2** | **15.5** | **10.6** | **12.0** | **48.8** | **36.8** |
| **Burkina Faso** | **87.9** | **70.8** | **17.1** | **26.8** | **14.1** | **12.6** | **-14.7** | **10.3** | **25.0** |
| Burundi | 108.7 | 91.7 | 17.0 | 8.6 | 2.8 | 5.7 | -17.2 | 6.2 | 23.4 |
| **Cameroon** | **81.2** | **70.6** | **10.6** | **24.0** | **21.5** | **2.5** | **-5.2** | **21.3** | **26.5** |
| Cape Verde | 114.8 | 87.0 | 27.9 | 21.6 | 15.1 | 6.5 | -36.4 | 31.3 | 67.8 |
| Central African Republic | 95.6 | 83.7 | 11.9 | 8.6 | 4.2 | 4.4 | -4.2 | 15.0 | 19.1 |
| Chad | 94.6 | 86.8 | 7.8 | 62.6 | 49.3 | 13.3 | -57.2 | 11.8 | 68.9 |
| Comoros | 99.4 | 80.1 | 19.3 | 12.9 | 8.1 | 4.8 | -12.3 | 15.8 | 28.1 |
| Congo | 47.5 | 32.2 | 15.3 | 23.3 | 14.7 | 8.6 | 29.2 | 82.1 | 52.8 |
| Congo, Democratic Republic | 94.9 | 89.1 | 5.8 | 9.2 | 8.2 | 1.0 | -4.1 | 21.6 | 25.7 |
| **Côte d'Ivoire** | **78.5** | **62.9** | **15.6** | **8.9** | **6.6** | **2.4** | **12.6** | **42.3** | **29.7** |
| Djibouti | 104.6 | 79.5 | 25.1 | 10.2 | 6.5 | 3.7 | -14.8 | 46.1 | 60.9 |
| **Egypt *** | **85.6** | **73.7** | **11.8** | **18.1** | **13.5** | **4.6** | **-3.7** | **18.2** | **21.8** |
| Equatorial Guinea | 41.2 | 32.1 | 9.2 | 29.5 | 23.2 | 6.3 | 29.3 | 105.1 | 75.8 |
| Eritrea | 130.3 | 92.2 | 38.0 | 26.5 | 9.2 | 17.2 | -56.6 | 28.9 | 85.5 |
| **Ethiopia*** | **98.2** | **75.8** | **22.4** | **20.5** | **11.3** | **9.2** | **-18.7** | **15.5** | **34.2** |
| **Gabon** | **52.3** | **41.4** | **10.9** | **24.4** | **20.5** | **4.0** | **23.3** | **58.0** | **34.7** |
| Gambia | 99.3 | 82.5 | 16.8 | 22.0 | 13.7 | 8.3 | -21.1 | 62.7 | 83.8 |
| **Ghana** | **92.5** | **74.9** | **17.6** | **19.7** | **13.6** | **6.1** | **-12.3** | **42.6** | **54.9** |
| Guinea | 82.8 | 75.8 | 7.0 | 22.7 | 14.9 | 7.8 | -5.5 | 24.2 | 29.7 |
| Guinea Bissau | 114.5 | 100.6 | 13.9 | 16.9 | 6.0 | 10.9 | -31.4 | 28.8 | 60.2 |
| **Kenya** | **90.5** | **71.5** | **19.0** | **13.6** | **8.8** | **4.8** | **-4.1** | **26.5** | **30.6** |
| Lesotho | 111.4 | 77.8 | 33.7 | 35.8 | 20.8 | 15.1 | -47.3 | 63.5 | 110.8 |
| Liberia | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Libya | 85.5 | 69.8 | 15.7 | 17.0 | ... | ... | ... | ... | ... |
| Madagascar | 90.6 | 82.4 | 8.2 | 16.0 | 7.9 | 8.1 | -6.6 | 16.0 | 22.6 |
| Malawi | 107.3 | 88.7 | 18.6 | 12.3 | 4.5 | 7.8 | -19.6 | 24.7 | 44.3 |
| **Mali** | **82.1** | **66.1** | **16.0** | **18.8** | **11.3** | **7.5** | **-0.9** | **28.7** | **29.6** |


© AfDB/OECD 2004
An OECD Browse_it Edition • Read Only • Lecture seule

## Table 3 - Demand Composition, 2002 (percentage of GDP) (cont.)

| | Final Consumption | | | Gross Capital Formation | | | External Sector | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Private | Public | Total | Private | Public** | Balance | Exports | Imports |
| Mauritania | 95.4 | 76.9 | 18.5 | 33.0 | 6.4 | 26.6 | -28.4 | 38.5 | 66.9 |
| **Mauritius** | **74.9** | **62.0** | **12.9** | **22.0** | **15.1** | **6.9** | **3.1** | **62.2** | **59.2** |
| **Morocco** | **86.5** | **66.4** | **20.1** | **22.7** | **20.0** | **2.7** | **-9.2** | **26.5** | **35.6** |
| **Mozambique** | **68.0** | **53.7** | **14.3** | **44.7** | **30.4** | **14.3** | **-12.7** | **33.0** | **45.6** |
| Namibia | 92.1 | 67.1 | 25.0 | 26.0 | 16.9 | 9.1 | -18.2 | 67.2 | 85.4 |
| Niger | 95.7 | 83.5 | 12.2 | 12.9 | 5.4 | 7.5 | -8.5 | 16.5 | 25.1 |
| **Nigeria** | **79.2** | **53.0** | **26.2** | **22.3** | **11.6** | **10.7** | **-1.5** | **43.9** | **45.3** |
| Rwanda | 98.6 | 86.8 | 11.8 | 18.8 | 12.0 | 6.8 | -17.5 | 7.6 | 25.1 |
| São Tomé et Principe | 114.1 | 79.3 | 34.8 | 26.6 | 14.2 | 12.4 | -40.7 | 36.2 | 76.9 |
| **Senegal** | **93.0** | **81.8** | **11.2** | **16.7** | **8.8** | **8.0** | **-9.8** | **30.5** | **40.2** |
| Seychelles | 75.5 | 38.9 | 36.6 | 28.5 | 18.8 | 9.4 | -4.2 | 78.1 | 82.2 |
| Sierra Leone | 112.6 | 93.0 | 19.6 | 10.0 | 4.7 | 5.2 | -22.6 | 18.2 | 40.8 |
| Somalia | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **South Africa*** ** | **80.5** | **61.8** | **18.8** | **16.1** | **12.2** | **3.9** | **3.3** | **33.3** | **29.9** |
| Sudan | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Swaziland | 93.1 | 68.8 | 24.2 | 17.7 | 11.0 | 6.8 | -10.8 | 77.7 | 88.6 |
| **Tanzania** | **86.5** | **80.1** | **6.4** | **19.3** | **11.6** | **7.6** | **-5.8** | **16.7** | **22.4** |
| Togo | 96.1 | 87.3 | 8.9 | 20.7 | 19.1 | 1.5 | -16.8 | 38.6 | 55.3 |
| **Tunisia** | **78.6** | **62.3** | **16.3** | **25.8** | **21.4** | **4.4** | **-4.5** | **44.3** | **48.7** |
| **Uganda*** | **93.9** | **79.1** | **14.8** | **21.6** | **14.8** | **6.7** | **-15.4** | **11.4** | **26.8** |
| **Zambia** | **82.3** | **69.4** | **13.0** | **23.0** | **9.0** | **14.0** | **-5.3** | **23.7** | **29.0** |
| **Zimbabwe** | **114.8** | **94.4** | **20.4** | **-8.3** | **-6.7** | **-1.5** | **-6.5** | **9.6** | **16.1** |

**Note:** * Fiscal year 2001/02.
** 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 2003).





An OECD Browse_it Edition • Read Only • Lecture seule

## Table 4 - **Public Finances, 2002** ($ 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** | **20 109** | **5 823** | **0** | **19 460** | **13 388** | **4 345** | **1 722** | **5 684** | **2 371** | **649** |
| Angola | 4 367 | .. | .. | 5 370 | .. | .. | 354 | .. | - 649 | -1 003 |
| Benin | 487 | .. | .. | 552 | .. | .. | 22 | .. | - 42 | - 65 |
| **Botswana*** | **2 013** | **1 676** | **9** | **2 166** | **1 574** | **546** | **15** | **586** | **- 137** | **- 152** |
| **Burkina Faso** | **549** | **352** | **170** | **689** | **362** | **148** | **24** | **331** | **- 116** | **- 141** |
| Burundi | 154 | .. | .. | 163 | .. | .. | 20 | .. | 12 | - 8 |
| **Cameroon** | **1 925** | **1 293** | **34** | **1 757** | **1 476** | **579** | **286** | **256** | **454** | **168** |
| Cape Verde | 199 | .. | .. | 210 | .. | .. | 17 | .. | 5 | - 12 |
| Central African Republic | 146 | .. | .. | 160 | .. | .. | 16 | .. | 2 | - 14 |
| Chad | 276 | .. | .. | 400 | .. | .. | 17 | .. | - 107 | - 124 |
| Comoros | 40 | .. | .. | 56 | .. | .. | 3 | .. | - 13 | - 16 |
| Congo | 826 | .. | .. | 1 071 | .. | .. | 253 | .. | 8 | - 245 |
| Congo, Democratic Republic | 458 | .. | .. | 605 | .. | .. | 176 | .. | 29 | - 147 |
| **Côte d'Ivoire** | **2 108** | **1 807** | **59** | **2 284** | **1 896** | **751** | **381** | **369** | **206** | **- 175** |
| Djibouti | 174 | .. | .. | 195 | .. | .. | 1 | .. | - 20 | - 21 |
| **Egypt*** | **17 550** | **11 496** | **825** | **22 480** | **18 995** | **6 276** | **5 090** | **3 393** | **160** | **-4 930** |
| Equatorial Guinea | 597 | .. | .. | 327 | .. | .. | 0 | .. | 269 | 269 |
| Eritrea | 244 | .. | .. | 439 | .. | .. | 25 | .. | - 170 | - 195 |
| **Ethiopia*** | **1 506** | **925** | **283** | **2 116** | **1 287** | **481** | **117** | **716** | **- 493** | **- 610** |
| **Gabon** | **1 565** | **614** | **3** | **1 391** | **987** | **317** | **217** | **196** | **391** | **174** |
| Gambia | 76 | .. | .. | 93 | .. | .. | 18 | .. | 1 | - 18 |
| **Ghana** | **1 303** | **1 077** | **193** | **1 608** | **1 231** | **522** | **378** | **377** | **73** | **- 305** |
| Guinea | 461 | .. | .. | 649 | .. | .. | 53 | .. | - 135 | - 188 |
| Guinea Bissau | 48 | .. | .. | 73 | .. | .. | 9 | .. | - 15 | - 25 |
| **Kenya*** | **2 455** | **2 064** | **68** | **2 814** | **2 483** | **507** | **379** | **331** | **20** | **- 359** |
| Lesotho | 338 | .. | .. | 368 | .. | .. | 22 | .. | - 8 | - 30 |
| Liberia | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Madagascar | 463 | .. | .. | 714 | .. | .. | 100 | .. | - 150 | - 250 |
| Malawi | 501 | .. | .. | 601 | .. | .. | 27 | .. | - 73 | - 100 |
| **Mali** | **681** | **465** | **123** | **801** | **492** | **134** | **26** | **317** | **- 94** | **- 120** |


© AfDB/OECD 2004
An OECD Browse_it Edition • Read Only • Lecture seule

## Table 4 - Public Finances, 2002 ($ 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 | 380 | .. | .. | 303 | .. | .. | 28 | .. | 105 | 77 |
| **Mauritius*** | **855** | **733** | **11** | **1 136** | **944** | **300** | **154** | **171** | **- 127** | **- 281** |
| **Morocco** | **8 663** | **7 941** | **0** | **10 192** | **8 049** | **4 404** | **1 588** | **1 733** | **59** | **-1 529** |
| **Mozambique** | **941** | **449** | **423** | **1 226** | **569** | **262** | **54** | **513** | **- 231** | **- 285** |
| Namibia | 863 | .. | .. | 989 | .. | .. | 66 | .. | - 60 | - 126 |
| Niger | 324 | .. | .. | 374 | .. | .. | 32 | .. | - 18 | - 50 |
| **Nigeria** | **17 503** | **6 618** | **0** | **20 029** | **7 402** | **3 178** | **3 048** | **5 747** | **522** | **-2 525** |
| Rwanda | 362 | .. | .. | 403 | .. | .. | 17 | .. | - 24 | - 41 |
| São Tomé et Principe | 27 | .. | .. | 35 | .. | .. | 5 | .. | - 3 | - 7 |
| **Senegal** | **1 043** | **903** | **89** | **1 109** | **660** | **286** | **57** | **457** | **- 9** | **- 66** |
| Seychelles | 305 | .. | .. | 410 | .. | .. | 51 | .. | - 54 | - 105 |
| Sierra Leone | 191 | .. | .. | 268 | .. | .. | 50 | .. | - 27 | - 77 |
| Somalia | 1 133 | .. | .. | 1 297 | .. | .. | .. | .. | .. | - 165 |
| **South Africa*** | **28 642** | **28 179** | **0** | **30 021** | **29 264** | **11 460** | **4 861** | **2 573** | **3 483** | **-1 379** |
| Sudan | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Swaziland | 310 | .. | .. | 385 | .. | .. | 10 | .. | - 65 | - 75 |
| **Tanzania*** | **1 548** | **1 018** | **416** | **1 587** | **1 196** | **399** | **219** | **374** | **180** | **- 39** |
| Togo | 185 | .. | .. | 195 | .. | .. | 27 | .. | 17 | - 10 |
| **Tunisia** | **5 448** | **4 527** | **83** | **5 859** | **4 218** | **2 564** | **644** | **1 571** | **233** | **- 411** |
| **Uganda*** | **1 091** | **638** | **399** | **1 355** | **1 640** | **303** | **84** | **563** | **- 180** | **- 264** |
| **Zambia** | **968** | **648** | **307** | **1 202** | **719** | **296** | **150** | **438** | **- 84** | **- 234** |
| **Zimbabwe** | **4 954** | **4 682** | **36** | **6 760** | **6 713** | **2 280** | **1 756** | **47** | **- 51** | **-1 806** |

**Note:** * Fiscal year 2001/02 except South Africa: 2002/03.
** Only major Items are reported.
*** Excluding oil revenues (for oil producing countries).

**Sources:** Various domestic authorities and IMF, World Economic Outlook (September 2003).

An OECD Browse_it Edition • Read Only • Lecture seule



© AfDB/OECD 2004

## Table 5 - Monetary Indicators

| | Inflation (%) | | | | Exchange Rate (LCU / $) | | | Broad Money (LCU billion) 2002 | | | Reserves, excluding gold, ($ million) 2002 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 (e) | 2004 (p) | 2005 (p) | 2001 | 2002 | 2003 | Level | % of GDP | Growth 2001/2002 | Stock at year-end | Eq. months of imports |
| **Algeria** | 1.4 | 2.4 | 1.3 | 2.8 | 77.2 | 79.7 | 77.7 | 2 180.4 | 48.9 | 5.2 | 23 503 | 23.5 |
| Angola | 108.9 | 95.2 | 30.1 | 13.9 | 22.1 | 43.5 | 75.0 | 108.6 | 22.2 | 158.6 | 376 | 1.2 |
| Benin | 2.4 | 2.5 | 2.4 | 2.5 | 733.0 | 697.0 | 579.5 | 500.6 | 26.6 | -7.0 | 616 | 15.1 |
| **Botswana*** | 6.0 | 10.6 | 5.8 | 5.0 | 5.8 | 6.3 | 5.0 | 9.5 | 28.6 | -1.1 | 5 474 | 38.7 |
| **Burkina Faso** | 2.3 | 1.8 | 2.5 | 1.4 | 733.0 | 697.0 | 579.5 | 396.3 | 18.2 | 0.6 | 313 | 6.9 |
| Burundi | -1.3 | 11.0 | 7.2 | 5.1 | 830.4 | 930.8 | 1 030.0 | 149.2 | 25.5 | 29.5 | 59 | 6.8 |
| **Cameroon** | 2.2 | 1.4 | 2.2 | 2.1 | 733.0 | 697.0 | 579.5 | 1 341.7 | 19.5 | 15.9 | 640 | 4.0 |
| Cape Verde | 1.8 | 2.8 | 2.0 | 2.0 | 123.2 | 117.3 | 97.6 | 50.8 | 70.2 | 13.6 | 80 | 3.4 |
| Central African Republic | 2.3 | 3.2 | 1.7 | 2.0 | 733.0 | 697.0 | 579.5 | 104.9 | 14.3 | -4.3 | 127 | 13.9 |
| Chad | 5.2 | 4.3 | 4.0 | 4.0 | 733.0 | 697.0 | 579.5 | 188.2 | 13.7 | 26.6 | 223 | 3.0 |
| Comoros | 3.3 | 2.5 | 2.0 | 2.0 | 549.8 | 522.7 | 553.2 | 34.3 | 26.5 | 9.2 | 80 | 19.2 |
| Congo | 3.3 | 2.0 | 2.0 | 2.0 | 733.0 | 697.0 | 579.5 | 291.7 | 13.9 | 13.1 | 35 | 0.5 |
| Congo, Democratic Republic | 27.7 | 9.1 | 6.0 | 5.0 | 206.6 | 346.5 | 410.0 | 87.5 | 4.6 | ... | ... | ... |
| **Côte d'Ivoire** | 3.1 | 3.0 | 1.0 | 2.5 | 733.0 | 697.0 | 579.5 | 2 391.6 | 29.4 | 30.0 | 1 863 | 9.1 |
| Djibouti | 0.6 | 2.0 | 2.0 | 2.0 | 177.7 | 177.7 | 177.7 | 65.4 | 62.2 | 15.7 | 74 | 3.2 |
| **Egypt*** | 2.5 | 3.0 | 5.2 | 2.7 | 4.0 | 4.5 | 5.8 | 332.8 | 87.6 | 12.6 | 13 813 | 11.3 |
| Equatorial Guinea | 12.0 | 10.0 | 8.0 | 6.0 | 733.0 | 697.0 | 579.5 | 99.1 | 6.7 | 53.1 | 89 | 1.0 |
| Eritrea | 16.9 | 18.8 | 12.4 | 10.5 | 11.3 | 14.0 | 14.0 | 13.7 | ... | 20.3 | 30 | 0.7 |
| **Ethiopia*** | -7.2 | 14.6 | 4.2 | 2.3 | 8.5 | 8.6 | 8.7 | 26.6 | 51.5 | 13.3 | 882 | 6.2 |
| **Gabon** | 0.2 | 1.8 | 1.9 | 2.3 | 733.0 | 697.0 | 579.5 | 599.0 | 17.4 | 5.7 | 144 | 1.8 |
| Gambia | 8.6 | 13.0 | 8.0 | 5.2 | 15.7 | 19.9 | 27.2 | 3.2 | 45.1 | 35.3 | 107 | 5.6 |
| **Ghana** | 14.8 | 12.3 | 8.0 | 10.4 | 7 170.8 | 7 932.5 | 8 676.4 | 14 991.3 | 30.7 | 48.9 | 636 | 2.8 |
| Guinea | 3.0 | 6.2 | 3.0 | 3.0 | 1 950.6 | 1 976.0 | 2 015.0 | 825.5 | 13.0 | 19.7 | 171 | 3.1 |
| Guinea Bissau | 3.3 | 3.0 | 3.0 | 3.0 | 733.0 | 697.0 | 579.5 | 86.4 | 60.9 | 22.8 | 103 | 15.4 |
| **Kenya** | 2.0 | 9.2 | 3.3 | 3.2 | 78.6 | 78.8 | 78.8 | 392.7 | 40.5 | 11.7 | 1 068 | 4.1 |
| Lesotho | 12.3 | 9.3 | 10.1 | 5.2 | 8.6 | 10.5 | 7.8 | 2.2 | 27.6 | 8.8 | 406 | 6.6 |
| Liberia | 14.2 | 14.2 | 10.0 | ... | 48.6 | 61.8 | 55.0 | ... | ... | 2.0 | 3 | ... |
| Libya | 1.9 | 2.4 | 2.2 | ... | 0.6 | 1.3 | 1.3 | ... | ... | 1.1 | 14 502 | ... |
| Madagascar | 4.5 | 3.5 | 3.5 | 3.0 | 6 588.5 | 6 832.0 | 6 200.0 | 7 292.0 | 24.3 | 8.0 | 363 | 7.2 |
| Malawi | 14.1 | 5.0 | 4.4 | 4.1 | 72.2 | 76.7 | 96.9 | 23.6 | 16.1 | 20.7 | 166 | 3.5 |
| **Mali** | 5.0 | -1.3 | 2.3 | 2.4 | 733.0 | 697.0 | 579.5 | 623.1 | 28.4 | 27.9 | 594 | 9.6 |

An OECD Browse_it Edition • Read Only • Lecture seule


© AfDB/OECD 2004

## Table 5 - Monetary Indicators (cont.)

| | Inflation (%) | | | | Exchange Rate (LCU / $) | | | Broad Money (LCU billion) 2002 | | | Reserves, excluding gold, ($ million) 2002 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 (e) | 2004 (p) | 2005 (p) | 2001 | 2002 | 2003 | Level | % of GDP | Growth 2001/2002 | Stock at year-end | Eq. months of imports |
| Mauritania | 3.9 | 6.4 | 3.7 | 3.5 | 255.3 | 271.7 | 263.0 | 42.1 | 15.6 | 8.9 | 399 | 11.4 |
| **Mauritius** | **6.3** | **4.0** | **4.0** | **3.2** | **29.1** | **30.0** | **28.0** | **118.4** | **86.2** | **12.5** | **1 240** | **7.5** |
| **Morocco** | **2.8** | **1.2** | **1.9** | **2.0** | **11.3** | **11.0** | **9.6** | **355.5** | **89.4** | **6.4** | **10 325** | **10.5** |
| **Mozambique** | **16.8** | **12.7** | **8.4** | **8.7** | **20 703.6** | **23 678.0** | **23 774.0** | **27 900.6** | **32.6** | **21.6** | **819** | **7.8** |
| Namibia | 11.3 | 9.5 | 8.5 | 7.5 | 8.6 | 10.6 | 7.8 | 10.7 | 34.7 | 6.9 | 323 | 3.1 |
| Niger | 2.7 | 0.5 | 1.7 | 2.0 | 733.0 | 697.0 | 579.5 | 136.1 | 9.0 | -0.5 | 134 | 3.8 |
| **Nigeria** | **12.2** | **10.7** | **6.8** | **6.4** | **111.2** | **120.6** | **129.8** | **1 599.5** | **30.0** | **21.6** | **7 331** | **6.2** |
| Rwanda | 2.0 | 4.7 | 3.0 | 3.0 | 443.0 | 475.4 | 540.0 | 143.0 | 17.3 | 12.6 | 244 | 12.5 |
| São Tomé et Principe | 9.2 | 9.0 | 8.0 | 6.0 | 8 842.1 | 9 088.3 | 9 543.0 | 196.6 | 40.4 | 25.0 | 17 | 7.4 |
| **Senegal** | **2.3** | **0.2** | **1.8** | **2.2** | **733.0** | **697.0** | **579.5** | **970.3** | **27.3** | **8.2** | **637** | **4.8** |
| Seychelles | 0.2 | 7.0 | 5.0 | 4.0 | 5.9 | 5.5 | 5.5 | 4.1 | 106.1 | 14.3 | 70 | 2.2 |
| Sierra Leone | -3.1 | 7.4 | 3.5 | 3.5 | 1 986.2 | 2 099.0 | 2 245.1 | 376.8 | 22.9 | 29.6 | 85 | 4.6 |
| Somalia | ... | ... | ... | ... | 20 000.0 | 22 500.0 | ... | ... | ... | ... | ... | ... |
| **South Africa** | **9.3** | **6.0** | **5.1** | **4.5** | **8.6** | **10.5** | **7.6** | **666.5** | **60.7** | **14.5** | **7 639** | **3.5** |
| Sudan | 8.3 | 7.0 | 5.0 | 5.0 | 258.7 | 263.4 | 261.1 | 563.0 | 15.3 | 30.3 | 441 | 2.5 |
| Swaziland | 11.8 | 9.5 | 6.7 | 6.4 | 8.6 | 10.5 | 9.3 | 2.6 | 20.7 | 13.1 | 276 | 3.2 |
| **Tanzania** | **4.5** | **4.3** | **5.3** | **5.4** | **876.4** | **966.6** | **1 038.3** | **2 047.7** | **22.6** | **25.1** | **1 529** | **12.1** |
| Togo | 3.1 | 0.0 | 3.1 | 2.1 | 733.0 | 697.0 | 579.5 | 234.6 | 24.7 | -2.2 | 205 | 4.2 |
| **Tunisia** | **2.7** | **2.5** | **2.4** | **2.4** | **1.4** | **1.4** | **1.3** | **17.0** | **57.0** | **4.4** | **2 294** | **3.1** |
| **Uganda*** | **-2.0** | **8.5** | **4.7** | **4.5** | **1 755.7** | **1 797.0** | **1 966.2** | **2 060.5** | **20.0** | **25.0** | **934** | **10.4** |
| **Zambia** | **22.2** | **21.5** | **18.6** | **17.3** | **3 610.9** | **4 307.0** | **4 733.3** | **3 619.2** | **22.3** | **31.1** | **535** | **5.3** |
| **Zimbabwe** | **140.0** | **377.1** | **456.2** | ... | **55.1** | **55.0** | **727.9** | **529.0** | **49.8** | **191.7** | **106** | **0.6** |

**Note:** *Fiscal year.
**Sources:** Inflation: Domestic authorities, United Nations Monthly Bulletin of Statistics, IMF, International Financial Statistics and authors'estimates and predictions.
Other data: IMF, International Financial Statistics.



© AfDB/OECD 2004



An OECD Browse_it Edition • Lecture seule • Read Only

## Table 6 - Current Account, 2002 ($ million)

| | Trade balance | Exports of goods | Imports of goods | Services balance | Net income | Current transfers | Current account balance |
|---|---|---|---|---|---|---|---|
| **Algeria** | **6 711** | **18 734** | **-12 023** | **-1 174** | **-2 237** | **1 063** | **4 362** |
| Angola | 4 650 | 8 360 | -3 710 | -3 860 | -1 530 | 90 | -650 |
| Benin | -280 | 210 | -490 | -40 | -30 | 130 | -220 |
| **Botswana*** | **517** | **2 058** | **-1 542** | **-90** | **-413** | **198** | **211** |
| **Burkina Faso** | **-303** | **245** | **-548** | **-110** | **-20** | **60** | **-373** |
| Burundi | -70 | 30 | -100 | -40 | -10 | 80 | -40 |
| **Cameroon** | **79** | **1 982** | **-1 903** | **-570** | **-390** | **160** | **-721** |
| Cape Verde | -240 | 40 | -280 | 10 | -10 | 170 | -70 |
| Central African Republic | 30 | 140 | -110 | -70 | -10 | 20 | -30 |
| Chad | -690 | 180 | -870 | -430 | -20 | 30 | -1 110 |
| Comoros | -20 | 20 | -40 | 0 | 0 | 30 | 10 |
| Congo | 1 610 | 2 320 | -710 | -740 | -820 | 0 | 50 |
| Congo, Democratic Republic | 30 | 1 090 | -1 060 | -250 | -300 | 360 | -160 |
| **Côte d'Ivoire** | **1 871** | **4 327** | **-2 456** | **-959** | **-632** | **-468** | **-187** |
| Djibouti | -200 | 80 | -280 | 10 | 110 | 40 | -40 |
| **Egypt*** | **-7 516** | **7 121** | **-14 637** | **3 629** | **249** | **4 252** | **613** |
| Equatorial Guinea | 1 130 | 2 230 | -1 100 | -510 | -800 | 0 | -180 |
| Eritrea | -470 | 50 | -520 | 100 | -10 | 290 | -90 |
| **Ethiopia*** | **-1 265** | **431** | **-1 696** | **133** | **-57** | **753** | **-436** |
| **Gabon** | **1 719** | **2 696** | **-977** | **-570** | **-1 080** | **-40** | **29** |
| Gambia | -80 | 150 | -230 | 10 | -20 | 50 | -40 |
| **Ghana** | **-657** | **2 057** | **-2 714** | **-104** | **-110** | **901** | **30** |
| Guinea | 50 | 700 | -650 | -230 | -60 | 30 | -210 |
| Guinea Bissau | -40 | 50 | -90 | -30 | -10 | 40 | -40 |
| **Kenya** | **-996** | **2162** | **-3159** | **492** | **-62** | **628** | **62** |
| **Lesotho** | **-381** | **355** | **-736** | **-20** | **161** | **121** | **-119** |
| Liberia | ... | ... | ... | ... | ... | ... | ... |
| Libya | ... | ... | ... | ... | ... | ... | ... |
| Madagascar | -120 | 500 | -620 | -180 | -70 | 100 | -270 |
| Malawi | -220 | 420 | -640 | -160 | 0 | 230 | -150 |
| **Mali** | **140** | **886** | **-746** | **-260** | **-230** | **120** | **-230** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## Table 6 - **Current Account, 2002** ($ million) (cont.)

| | Trade balance | Exports of goods | Imports of goods | Services balance | Net income | Current transfers | Current account balance |
|---|---|---|---|---|---|---|---|
| Mauritania | -90 | 330 | -420 | -190 | 130 | 100 | -50 |
| **Mauritius** | **-208** | **1 800** | **-2 008** | **350** | **9** | **14** | **166** |
| **Morocco** | **-3 994** | **7 839** | **-11 833** | **2 875** | **-722** | **3 321** | **1 480** |
| Mozambique** | -581 | 682 | -1 263 | -262 | 0 | 425 | -419 |
| Namibia | -179 | 1 072 | -1 250 | 2 | 28 | 245 | 97 |
| Niger | -90 | 290 | -380 | -100 | -10 | 80 | -120 |
| **Nigeria** | **4 162** | **18 240** | **-14 078** | **-2 346** | **-3 143** | **1 417** | **89** |
| Rwanda | -160 | 70 | -230 | -140 | -20 | 190 | -130 |
| São Tomé et Principe | -10 | 10 | -20 | -10 | 0 | 0 | -20 |
| **Senegal** | **-515** | **1 088** | **-1 603** | **-10** | **-100** | **330** | **-295** |
| Seychelles | -120 | 220 | -340 | 80 | -60 | 10 | -90 |
| Sierra Leone | -130 | 100 | -230 | -50 | -30 | 80 | -130 |
| Somalia | ... | ... | ... | ... | ... | ... | ... |
| South Africa | **4 374** | **30 920** | **-26 547** | **-835** | **-2 691** | **-556** | **292** |
| Sudan | -220 | 1 930 | -2 150 | -770 | -1 210 | 670 | -1 530 |
| Swaziland | -60 | 860 | -920 | -70 | 10 | 80 | -40 |
| **Tanzania** | **-609** | **903** | **-1 511** | **-47** | **-91** | **421** | **-325** |
| Togo | -180 | 410 | -590 | -50 | -20 | 90 | -160 |
| **Tunisia** | **-2 124** | **6 857** | **-8 980** | **2 792** | **-1 502** | **85** | **-749** |
| **Uganda*** | **-605** | **472** | **-1077** | **-322** | **-134** | **651** | **-410** |
| **Zambia** | **-288** | **916** | **-1 204** | **-260** | **-140** | **70** | **-618** |
| **Zimbabwe** | **-802** | **1 388** | **-2 190** | **-200** | **-290** | **450** | **-842** |
| **Africa ***** | **2 558** | **136 021** | **-133 463** | **-5 575** | **-18 395** | **17 609** | **-3 803** |

**Note:** * Fiscal year 2001/02.
** Net Income is included in services.
*** Excluding countries for which data is not available.

**Sources:** Domestic authorities and IMF, World Economic Outlook (September 2003).





An OECD Browse_it Edition • Read Only • Lecture seule

## Table 7 - Exports, 2001

| | 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 (35.8%)** | **Natural gas, liquefied (16.1%)** | **Motor gasolene,light oil (11.3%)** | **5** |
| Angola | Crude petroleum (87.8%) | Diamonds.excl.industrial (8.8%) | | 1 |
| Benin | Cotton,not carded,combed (58%) | Cotton seeds (8%) | Goat or kid skin leather (7.6%) | 4 |
| **Botswana** | **Diamonds.excl.industrial (89.5%)** | **Nickel mattes,sintrs.etc (4.1%)** | | **1** |
| **Burkina Faso** | **Cotton,not carded,combed (37.2%)** | **Sesame (sesamum) seeds (4.3%)** | | **20** |
| Burundi | Coffee, not roasted (70.9%) | Ore etc.molybdn.niob.etc. (12.1%) | Tea (5.5%) | 2 |
| **Cameroon** | **Crude petroleum (40%)** | **Wood,non-conifer, sawn (15.3%)** | **Bananas, fresh or dried (9.9%)** | **5** |
| Cape Verde | Gas turbines, nes (38.2%) | Parts,jet,gasturbine eng (13.1%) | Reaction engines (12.4%) | 6 |
| Central African Republic | Wood,non-conif,rough,unt (38.8%) | Cotton,not carded,combed (19.4%) | Diamonds.excl.industrial (18.5%) | 3 |
| Chad | Cotton,not carded,combed (68.4%) | Natural gums,resins,etc. (26.3%) | | 2 |
| Comoros | Spices,ex.pepper,pimento (85.5%) | Essential oils (9%) | | 1 |
| Congo | Crude petroleum (73.8%) | Fuel oils, nes (5.6%) | Wood,non-conif,rough,unt (4.4%) | 2 |
| Congo, Democratic Republic | Crude petroleum (29.3%) | Diamonds.excl. industrial (22.8%) | Oth.non-ferr.ore,concntr (20.2%) | 4 |
| **Côte d'Ivoire** | **Cocoa beans (40.2%)** | **Wood,non-conifer, sawn (6.1%)** | **Bananas, fresh or dried (6%)** | **9** |
| Djibouti | Parts,nes,aircraft,equip (24.4%) | Sheep skin without wool (10.1%) | Special trans not classd (7.8%) | 11 |
| **Egypt** | **Crude petroleum (15.9%)** | **Motor gasolene,light oil (7.6%)** | | **41** |
| Equatorial Guinea | Crude petroleum (86%) | Wood,non-conif,rough,unt (5.7%) | | 1 |
| Eritrea | Oth.bovine,equine leathr (15.2%) | Goat or kid skin leather (7.7%) | Oscilloscopes, etc. (7.5%) | 13 |
| **Ethiopia** | **Coffee, not roasted (46.9%)** | **Sheep skin without wool (8.7%)** | **Sesame (sesamum) seeds (5.3%)** | **8** |
| **Gabon** | **Crude petroleum (76.9%)** | **Wood,non-conif,rough,unt (14.4%)** | **Manganese ores,concentrs (4.3%)** | **1** |
| Gambia | Groundnuts (peanuts) (35.5%) | Crustaceans, frozen (13.2%) | Aluminium ore,concentrat (8.2%) | 7 |
| **Ghana** | **Cocoa beans (30.7%)** | **Alum.,alum.alloy,unwrght (15.1%)** | **Wood,non-conifer, sawn (7.8%)** | **9** |
| Guinea | Aluminium ore,concentrat (46.5%) | Alumina (aluminium oxide) (18.4%) | Diamonds.excl.industrial (16.6%) | 3 |
| Guinea Bissau | Fish,frozen ex.fillets (50.2%) | Fish fillets, frozen (20.4%) | Molluscs (13.9%) | 3 |
| **Kenya** | **Tea (27.2%)** | **Cut flowers and foliage (11.6%)** | **Oth.frsh,chll.vegetables (8.2%)** | **16** |
| Lesotho | Jerseys,pullovers,etc.knit (29.7%) | Trousers, breeches etc. (23.2%) | Trousers,breeches,etc. (20.1%) | 4 |
| Liberia | Ships,boats,other vessels (65.4%) | Spec.purpose vessels etc (11.8%) | Wood,non-conif,rough,unt (9.7%) | 2 |
| Libya | Crude petroleum (83%) | Fuel oils, nes (5.2%) | | 1 |
| Madagascar | Spices,ex.pepper,pimento (21.8%) | Jerseys,pullovers,etc.knit (18.2%) | Crustaceans, frozen (13.2%) | 11 |
| Malawi | Tobacco,stemmed,stripped (60.5%) | Tea (9.3%) | Tobacco,not stripped,etc (7.5%) | 3 |
| **Mali** | **Cotton,not carded,combed (49.9%)** | **Electronic microcircuits (19.5%)** | | **5** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## Table 7 - **Exports, 2001** (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 (45.8%) | Molluscs (24.6%) | Fish,frozen ex.fillets (16.5%) | 3 |
| **Mauritius** | **Sugars,beet or cane, raw (16.4%)** | **T-shirts,othr.vests knit (13.9%)** | **Jerseys,pullovers,etc.knit (12.9%)** | **9** |
| **Morocco** | **Trousers, breeches etc. (12%)** | **Molluscs (5.9%)** | **Natural calc.phosphates (5.6%)** | **33** |
| **Mozambique** | **Alum.,alum.alloy,unwrght (70.1%)** | **Crustaceans, frozen (10.9%)** | | **2** |
| Namibia | Diamonds.excl.industrial (38%) | Fish fillets, frozen (16.4%) | Fish,frozen ex.fillets (11.1%) | 5 |
| Niger | Radio-active chemicals (33.2%) | Special trans not classd (6.6%) | Narrow fabric,woven,othr (5.7%) | 5 |
| **Nigeria** | **Crude petroleum (86.9%)** | | | **1** |
| Rwanda | Ore etc.molybdn.niob.etc (65.9%) | Coffee, not roasted (21.3%) | | 2 |
| São Tomé et Principe | Cocoa beans (32.6%) | Storage units,data proc. (23.4%) | Ships,boats,other vessels (10.1%) | 5 |
| **Senegal** | **Groundnut oil, fractions(16.2%)** | **Fish,fresh,chilled,whole (9.7%)** | **Crustaceans, frozen (6.9%)** | **9** |
| Seychelles | Fish,prepard,presrvd,nes (59.1%) | Fish,frozen ex.fillets (20.3%) | Fish fillets, frozen (5.7%) | 2 |
| Sierra Leone | Convertible seats,parts (33.6%) | Diamonds.excl.industrial (26.4%) | | 10 |
| Somalia | Fuel wood, wood charcoal (24.9%) | Sheep and goats, live (15.9%) | Fish,frozen ex.fillets (10.9%) | 8 |
| **South Africa** | **Platinum (12%)** | **Diamonds.excl.industrial (7.3%)** | **Oth.coal,not agglomeratd (6.4%)** | **76** |
| Sudan | Crude petroleum (81.2%) | Sesame (sesamum) seeds (4.8%) | | 1 |
| **Tanzania** | **Coffee, not roasted (14.5%)** | **Tobacco,stemmed,stripped (8.7%)** | **Fish fillets, frozen (7.8%)** | **16** |
| Togo | Natural calc.phosphates (29.5%) | Cotton,not carded,combed (22%) | Coffee, not roasted (4.6%) | 11 |
| **Tunisia** | **Trousers, breeches etc. (19.8%)** | **Crude petroleum (6.4%)** | **Insulated wire,etc.condctr (6.4%)** | **31** |
| **Uganda** | **Coffee, not roasted (34.6%)** | **Fish fillets,frsh,chilled (17.8%)** | **Tobacco,stemmed,stripped (10.3%)** | **5** |
| **Zambia** | **Copper;anodes;alloys (45.3%)** | **Cobalt,cadmium,etc.unwrt (12.1%)** | **Copper plate,etc.15mm+th (11.5%)** | **5** |
| **Zimbabwe** | **Tobacco,stemmed,stripped (28.6%)** | **Other ferro-alloys (7.5%)** | **Cotton,not carded,combed (7.1%)** | **23** |
| **Africa**** | **Crude petroleum (34.4%) [ 15.3%]** | **Diamonds.excl.industrial (3.8) [14.1%]** | **Platinum (2.8%) [23.8%]** | **46** |

**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 UN Statistics Division, 2001.





An OECD Browse_it Edition • Lecture seule • Read Only

## Table 8 - Diversification and Competitiveness

| | Diversification index | | | | | Annual export growth (%) | Competitiveness Indicator 1997-2001 (%) | |
|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 1997-2001 | Sectoral effect | Global competitiveness effect |
| **Algeria** | **7.1** | **6.8** | **6.5** | **5.8** | **5.5** | **4.1** | **4.0** | **-2.6** |
| Angola | 1.3 | 1.4 | 1.4 | 1.3 | 1.3 | 9.2 | 2.2 | 4.2 |
| Benin | 1.7 | 1.9 | 2.7 | 3.2 | 2.8 | -14.6 | -10.9 | -6.4 |
| **Botswana** | ... | ... | ... | ... | ... | ... | ... | ... |
| **Burkina Faso** | **2.1** | **2.2** | **2.2** | **4.2** | **6.7** | **5.4** | **-10.5** | **13.2** |
| Burundi | 1.6 | 1.2 | 1.9 | 1.6 | 1.9 | -15.7 | -14.7 | -3.6 |
| **Cameroun** | **5.8** | **7.1** | **7.0** | **5.2** | **4.8** | **-2.7** | **-4.8** | **-0.7** |
| Cape Verde | 15.0 | 9.8 | 6.2 | 8.3 | 5.3 | -20.0 | -3.2 | -19.5 |
| Central African Republic | 2.5 | 2.0 | 1.8 | 1.8 | 4.2 | -14.7 | -8.0 | -9.5 |
| Chad | 1.3 | 1.3 | 1.4 | 1.6 | 1.9 | -15.5 | -12.1 | -6.1 |
| Comoros | 2.9 | 2.6 | 4.7 | 2.3 | 1.4 | 60.6 | -0.1 | 58.0 |
| Congo | 2.2 | 2.2 | 2.2 | 2.0 | 1.8 | -4.9 | -0.7 | -6.9 |
| Congo, Democratic Republic | 1.9 | 1.7 | 1.9 | 1.5 | 1.6 | -12.3 | -4.1 | -11.0 |
| **Côte d'Ivoire** | **6.9** | **5.1** | **5.0** | **6.5** | **5.5** | **-5.2** | **-6.0** | **-1.9** |
| Djibouti | 10.6 | 15.9 | 13.6 | 21.1 | 10.4 | -9.6 | -3.5 | -8.8 |
| **Egypt** | **6.5** | **10.1** | **8.7** | **14.2** | **24.4** | **-3.6** | **0.2** | **-6.5** |
| Equatorial Guinea | 2.1 | 1.9 | 1.9 | 1.5 | 1.3 | 89.3 | -1.1 | 87.6 |
| Eritrea | 12.5 | 13.5 | 13.2 | 19.0 | 14.7 | -1.0 | -4.7 | 0.9 |
| **Ethiopia** | **2.3** | **1.9** | **2.4** | **2.4** | **4.2** | **-10.9** | **-13.6** | **0.0** |
| **Gabon** | **1.6** | **1.9** | **1.9** | **1.6** | **1.6** | **-3.1** | **0.7** | **-6.5** |
| Gambia | 1.6 | 2.1 | 2.3 | 4.4 | 5.9 | -21.2 | -5.4 | -18.6 |
| **Ghana** | **7.3** | **7.2** | **7.5** | **7.9** | **7.4** | **-2.0** | **-4.9** | **0.2** |
| Guinea | 3.5 | 3.5 | 3.8 | 3.8 | 3.5 | 2.7 | -3.7 | 3.7 |
| Guinea Bissau | 2.1 | 4.0 | 2.7 | 2.4 | 1.1 | 2.7 | -8.0 | 7.9 |
| **Kenya** | **10.8** | **9.5** | **11.0** | **13.5** | **9.5** | **-4.7** | **-5.6** | **-1.8** |
| Lesotho | ... | ... | ... | ... | ... | ... | ... | ... |
| Liberia | 3.4 | 2.0 | 3.1 | 2.9 | 2.2 | -1.5 | -6.5 | 2.3 |
| Libya | 1.6 | 1.5 | 1.6 | 1.5 | 1.4 | 4.2 | 3.5 | -2.1 |
| Madagascar | 18.7 | 16.7 | 16.8 | 11.3 | 9.3 | 15.1 | -3.0 | 15.4 |
| Malawi | 2.4 | 2.8 | 2.6 | 2.3 | 2.6 | -6.6 | -6.8 | -2.5 |
| **Mali** | **1.4** | **1.3** | **1.4** | **1.9** | **3.4** | **-8.7** | **-11.7** | **0.3** |

An OECD Browse_it Edition • Read Only • Lecture seule



© AfDB/OECD 2004

## Table 8 - Diversification and Competitiveness (cont.)

| | Diversification index | | | | | Annual export growth (%) | Competitiveness Indicator 1997-2001 (%) | |
|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 1997-2001 | Sectoral effect | Global competitiveness effect |
| Mauritania | 3.2 | 3.4 | 3.5 | 3.5 | 3.3 | -7.9 | -2.2 | -8.4 |
| **Mauritius** | **10.7** | **10.2** | **11.2** | **12.6** | **11.8** | **-0.5** | **-1.7** | **-1.5** |
| **Morocco** | **30.5** | **33.7** | **32.7** | **35.6** | **37.2** | **2.5** | **-2.9** | **2.7** |
| **Mozambique** | **7.1** | **7.5** | **8.2** | **8.9** | **2.0** | **37.7** | **-5.2** | **40.2** |
| Namibia | ... | ... | ... | ... | ... | ... | ... | ... |
| Niger | 2.4 | 2.2 | 2.4 | 2.1 | 4.5 | -1.5 | 1.8 | -6.1 |
| **Nigeria** | **1.2** | **1.3** | **1.3** | **1.2** | **1.3** | **3.5** | **3.1** | **-2.3** |
| Rwanda | 3.4 | 3.1 | 2.6 | 3.1 | 2.1 | -1.5 | -12.3 | 8.1 |
| **SACU*** | **22.7** | **23.9** | **27.1** | **27.4** | **26.5** | **6.2** | **0.8** | **2.7** |
| São Tomé et Principe | 3.3 | 2.9 | 5.3 | 26.7 | 5.4 | 1.7 | -3.9 | 2.9 |
| **Senegal** | **16.5** | **18.3** | **15.6** | **12.7** | **13.6** | **-7.2** | **-4.8** | **-5.1** |
| Seychelles | 2.4 | 2.0 | 2.0 | 1.9 | 2.5 | 37.6 | -4.7 | 39.6 |
| Sierra Leone | 2.3 | 2.3 | 4.3 | 4.0 | 5.3 | -13.9 | -5.0 | -11.6 |
| Somalia | 5.9 | 4.5 | 3.2 | 2.4 | 8.5 | -8.8 | -3.7 | -7.8 |
| **South Africa** | ... | ... | ... | ... | ... | ... | ... | ... |
| Sudan | 7.5 | 9.4 | 6.2 | 1.8 | 1.5 | 72.6 | -8.4 | 78.3 |
| Swaziland | ... | ... | ... | ... | ... | ... | ... | ... |
| **Tanzania** | **11.9** | **11.7** | **12.6** | **16.8** | **18.6** | **-7.4** | **-8.3** | **-1.8** |
| Togo | 4.5 | 4.7 | 6.4 | 7.1 | 6.9 | -9.4 | -9.9 | -2.2 |
| **Tunisia** | **25.4** | **25.9** | **26.6** | **28.4** | **27.0** | **5.6** | **-1.1** | **4.0** |
| **Uganda** | **1.7** | **1.8** | **1.9** | **3.0** | **5.7** | **-12.6** | **-14.6** | **-0.7** |
| **Zambia** | **3.2** | **4.4** | **5.9** | **5.0** | **4.2** | **-9.1** | **-6.9** | **-4.9** |
| **Zimbabwe** | **9.8** | **11.5** | **9.3** | **12.2** | **10.0** | **-3.9** | **-5.7** | **-0.8** |
| **Africa** | **9.2** | **13.8** | **10.9** | **6.9** | **8.0** | **2.9** | **0.4** | **-0.3** |

**Note** * Include Botswana, Lesotho, Namibia, South Africa and Swaziland.
**Sources:** International Trade Center (UNCTAD/WTO) and the UN Statistics Division, 2001.



© AfDB/OECD 2004



An OECD Browse_it Edition • Lecture seule • Read Only

## Table 9 - International Prices of Exports, 1997-2003

| | Unit | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|
| Aluminum | ($/mt) | 1 544.7 | 1 361.9 | 1 367.2 | 1 549.1 | 1 444.0 | 1 350.0 | 1 431.0 |
| Banana (US) | ($/mt) | 499.4 | 491.1 | 374.9 | 424.0 | 583.3 | 528.6 | 374.8 |
| Coal (US) | ($/mt) | 35.1 | 34.5 | 33.3 | 33.1 | 44.9 | 40.0 | ... |
| Cocoa | (cents/kg) | 161.9 | 167.6 | 113.5 | 90.6 | 106.9 | 177.8 | 175.1 |
| Coffee (Arabica) | (cents/kg) | 402.6 | 299.1 | 230.1 | 192.0 | 137.3 | 135.7 | 141.5 |
| Coffee (Robusta) | (cents/kg) | 167.7 | 182.9 | 149.5 | 91.3 | 60.7 | 66.2 | 81.5 |
| Copper | ($/mt) | 2 199.0 | 1 659.5 | 1 579.9 | 1 813.5 | 1 578.0 | 1 559.0 | 1 779.0 |
| Cotton | (c/kg) | 168.8 | 144.9 | 117.6 | 130.2 | 105.8 | 101.9 | 139.9 |
| Fish Meal | ($/mt) | 585.6 | 664.1 | 394.3 | 429.5 | 486.7 | 605.9 | 610.7 |
| Gold | ($/toz) | 319.8 | 295.1 | 280.0 | 279.0 | 271.0 | 310.0 | 363.5 |
| Groundnut oil | ($/mt) | 975.9 | 912.4 | 791.2 | 713.7 | 680.3 | 687.1 | 1 242.7 |
| Iron ore. Carajas | (c/dmtu) | 29.1 | 31.1 | 27.7 | 28.8 | 30.0 | 29.3 | 32.0 |
| Lead | (c/kg) | 60.3 | 53.0 | 50.5 | 45.4 | 47.6 | 45.3 | 51.5 |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

An OECD Browse_it Edition • Read Only • Lecture seule

## Table 9 - International Prices of Exports, 1997-2003 (cont.)

| | Unit | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|
| Logs Cameroon | ($/CM) | 284.8 | 286.4 | 269.3 | 275.4 | 266.1 | ... | ... |
| Maize | ($/mt) | 117.1 | 102.0 | 90.2 | 88.5 | 89.6 | 99.3 | 105.4 |
| Oil (crude) | ($/bbl) | 19.2 | 13.1 | 18.1 | 28.2 | 24.4 | 24.9 | 28.9 |
| Palm oil | ($/mt) | 545.9 | 671.1 | 436.0 | 310.3 | 285.7 | 390.3 | 443.3 |
| Phosphate (rock) | ($/mt) | 41.0 | 43.0 | 44.0 | 43.8 | 41.8 | 40.4 | 38.0 |
| Rubber (Malaysia) | (cents/kg) | 101.8 | 72.2 | 62.8 | 69.1 | 60.0 | 77.1 | 105.6 |
| Sugar (EEC) | (cents/kg) | 60.6 | 59.9 | 59.4 | 57.7 | 52.9 | 54.9 | 59.7 |
| Sugar (free market) | (c/kg) | 25.1 | 19.7 | 13.8 | 18.0 | 19.0 | 15.2 | 15.6 |
| Sugar (US) | (cents/kg) | 46.7 | 48.8 | 46.8 | 44.4 | 47.0 | 46.1 | 47.4 |
| Tea (Avg. 3 auctions) | (c/kg) | 206.0 | 204.6 | 183.9 | 187.6 | 159.8 | 150.6 | 151.7 |
| Tea (Mombasa) | (c/kg) | 201.5 | 189.9 | 179.8 | 202.9 | 151.7 | 149.2 | 154.4 |
| Tobacco | ($/mt) | 3 351.6 | 3 336.1 | 3 041.6 | 2 976.2 | 3 011.0 | 2 740.0 | ... |

**Source:** World Bank, Global Commodity Price Prospects.



© AfDB/OECD 2004

## Table 10 - Foreign Direct Investment, 1997-2002 ($ million)

| | FDI inflows | | | | | | FDI outflows | | | | | | FDI inflows / GFCF | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| **Algeria** | **260** | **501** | **507** | **438** | **1 196** | **1 065** | **8** | **1** | **47** | **18** | **9** | **100** | **2.4** | **4.0** | **4.3** | **3.9** | **9.6** | **7.7** |
| Angola | 412 | 1 114 | 2 471 | 879 | 2 146 | 1 312 | 0 | 0 | 0 | .. | 0 | 0 | 21.1 | 48.6 | 86.8 | 28.0 | 65.5 | 36.3 |
| Benin | 26 | 35 | 61 | 60 | 44 | 41 | 12 | 2 | 23 | 4 | 2 | .. | 6.6 | 8.8 | 14.6 | 13.9 | 9.6 | 8.5 |
| Botswana | 100 | 90 | 37 | 54 | 26 | 37 | 4 | 3 | 1 | 2 | 318 | 2 | 7.7 | 6.6 | 2.6 | 4.1 | 2.1 | 3.1 |
| **Burkina Faso** | **13** | **10** | **13** | **23** | **9** | **8** | **1** | **5** | **5** | **0** | **1** | **1** | **2.2** | **1.5** | **2.4** | **4.7** | **1.7** | **1.4** |
| Burundi | .. | 2 | 0 | 12 | 0 | .. | 0 | 0 | 1 | .. | .. | .. | .. | 2.6 | 0.3 | 19.6 | 0.0 | .. |
| **Cameroun** | **45** | **50** | **40** | **31** | **67** | **86** | **7** | **1** | **3** | **4** | **3** | **3** | **3.1** | **3.3** | **2.3** | **2.2** | **4.4** | **4.5** |
| Cape Verde | 12 | 9 | 53 | 34 | 9 | 14 | 0 | .. | 0 | .. | .. | .. | 10.4 | 7.7 | 42.7 | 29.7 | 8.6 | 10.5 |
| Central African Republic | 0 | 0 | 3 | 1 | 5 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0.4 | 0.4 | 2.6 | 1.0 | 6.4 | 4.7 |
| Chad | 44 | 21 | 27 | 115 | .. | 901 | -1 | 0 | 2 | 0 | 0 | 0 | 17.6 | 8.8 | 10.5 | 39.8 | .. | 73.8 |
| Comoros | 0 | 3 | 0 | 1 | 0 | 1 | .. | .. | .. | .. | .. | .. | 0.1 | 12.8 | 1.7 | 6.0 | 0.1 | 5.4 |
| Congo | 79 | 33 | 521 | 166 | 77 | 247 | 4 | -8 | 2 | 4 | 6 | 8 | 15.7 | 6.9 | 83.2 | 26.7 | 10.5 | 36.5 |
| Congo, Democratic Republic | -44 | 61 | 11 | 23 | 1 | 32 | .. | .. | .. | .. | .. | .. | -1.8 | 7.1 | 1.0 | 15.5 | 0.3 | 6.3 |
| **Côte d'Ivoire** | **450** | **416** | **381** | **235** | **44** | **223** | **34** | **36** | **57** | **..** | **2** | **2** | **26.5** | **20.4** | **21.0** | **20.1** | **4.2** | **16.9** |
| Djibouti | 2 | 3 | 4 | 3 | 3 | 4 | .. | .. | .. | .. | .. | .. | 5.1 | 4.4 | 9.0 | 4.9 | 7.2 | 5.8 |
| **Egypt** | **887** | **1 076** | **1 065** | **1 235** | **510** | **647** | **166** | **46** | **38** | **51** | **12** | **28** | **6.3** | **6.2** | **5.9** | **7.0** | **3.5** | **5.1** |
| Equatorial Guinea | 53 | 292 | 252 | 108 | 945 | 323 | .. | 0 | 2 | -4 | 4 | 0 | 12.0 | 51.8 | 53.6 | 19.4 | 96.8 | 51.7 |
| Eritrea | 41 | 149 | 83 | 28 | 1 | 21 | .. | .. | .. | .. | .. | .. | 19.1 | 74.6 | 33.7 | 23.7 | 0.4 | 12.3 |
| **Ethiopia** | **288** | **261** | **70** | **135** | **20** | **75** | **228** | **254** | **-46** | **-1** | **69** | **7** | **26.6** | **23.3** | **6.7** | **13.9** | **1.7** | **6.0** |
| **Gabon** | **-587** | **-200** | **-625** | **-43** | **169** | **123** | **-13** | **-14** | **14** | **25** | **2** | **0** | **-35.7** | **-11.8** | **-55.9** | **-3.8** | **13.9** | **10.2** |
| Gambia | 21 | 24 | 49 | 44 | 35 | 43 | 5 | 6 | 4 | 5 | 5 | 5 | 31.8 | 30.4 | 64.4 | 59.0 | 49.2 | 55.2 |
| **Ghana** | **82** | **56** | **267** | **115** | **89** | **50** | **50** | **30** | **77** | **52** | **53** | **61** | **5.0** | **3.3** | **16.5** | **9.5** | **6.4** | **4.2** |
| Guinea | 17 | 18 | 63 | 10 | 2 | 30 | 1 | 1 | 3 | 2 | 2 | 2 | 2.1 | 2.5 | 8.7 | 1.5 | 0.2 | 4.2 |
| Guinea Bissau | 11 | 4 | 9 | 1 | 1 | 1 | .. | .. | .. | .. | .. | .. | 17.2 | 18.8 | 22.8 | 2.0 | 1.8 | 2.9 |
| **Kenya** | **40** | **42** | **42** | **127** | **50** | **50** | **5** | **14** | **30** | **29** | **50** | **76** | **2.1** | **2.3** | **2.6** | **8.3** | **3.2** | **3.1** |
| **Lesotho** | **32** | **27** | **33** | **31** | **28** | **24** | **..** | **..** | **..** | **..** | **..** | **..** | **5.9** | **6.3** | **7.6** | **8.6** | **9.6** | **8.5** |
| Liberia | 214 | 190 | 256 | -431 | -20 | -65 | 501 | -731 | 310 | 608 | -167 | -50 | .. | .. | .. | .. | .. | .. |
| Libya | -82 | -150 | -118 | -142 | -101 | -96 | 284 | 299 | 208 | 98 | 84 | 110 | .. | .. | .. | .. | .. | .. |
| Madagascar | 14 | 16 | 58 | 70 | 93 | 8 | -2 | 1 | 0 | 1 | .. | .. | 3.0 | 2.9 | 10.5 | 5.9 | 7.0 | 1.1 |
| Malawi | -1 | -3 | 46 | -33 | -20 | 0 | 1 | 6 | 3 | 3 | 4 | 3 | -0.4 | -1.5 | 20.0 | -15.2 | -10.5 | 0.0 |
| **Mali** | **74** | **36** | **51** | **83** | **122** | **102** | **5** | **27** | **50** | **4** | **17** | **19** | **13.3** | **6.3** | **9.4** | **16.5** | **22.1** | **17.5** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## Table 10 - Foreign Direct Investment, 1997-2002 ($ million) (cont.)

| | FDI inflows | | | | | | FDI outflows | | | | | | FDI inflows / GFCF | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Mauritania | 1 | 0 | 1 | 9 | -6 | 12 | .. | .. | .. | .. | .. | .. | 0.4 | 0.1 | 0.4 | 3.1 | -2.0 | 3.8 |
| **Mauritius** | **55** | **12** | **49** | **277** | **32** | **28** | **3** | **14** | **6** | **13** | **2** | **1** | **4.6** | **1.2** | **4.6** | **24.5** | **3.1** | **2.8** |
| **Morocco** | **1 188** | **417** | **1 376** | **423** | **2 808** | **428** | **9** | **20** | **18** | **59** | **97** | **29** | **17.2** | **5.3** | **16.5** | **5.3** | **37.2** | **5.2** |
| **Mozambique** | **64** | **235** | **382** | **139** | **255** | **406** | **0** | **0** | **0** | **0** | **0** | **0** | **9.1** | **24.5** | **25.4** | **10.5** | **17.9** | **25.2** |
| **Namibia** | **84** | **77** | **111** | **153** | **275** | **181** | **1** | **-1** | **-1** | **3** | **-13** | **-5** | **11.7** | **9.9** | **14.3** | **23.9** | **39.2** | **24.7** |
| Niger | 25 | 9 | 0 | 9 | 23 | 8 | 8 | 10 | 0 | -1 | -4 | .. | 12.6 | 3.9 | 0.1 | 4.5 | 10.3 | 2.9 |
| **Nigeria** | **1 539** | **1 051** | **1 005** | **930** | **1 104** | **1 281** | **58** | **107** | **92** | **85** | **94** | **101** | **25.9** | **15.1** | **12.8** | **13.8** | **14.0** | **13.1** |
| Rwanda | 3 | 7 | 2 | 8 | 4 | 3 | 1 | 0 | 1 | 1 | 1 | 1 | 1.0 | 2.4 | 0.5 | 2.5 | 1.2 | 0.8 |
| São Tomé et Principe | 0 | 0 | 1 | 2 | 6 | 2 | .. | .. | .. | .. | .. | .. | 0.6 | 2.7 | 4.2 | 10.8 | 38.2 | 12.5 |
| **Senegal** | **176** | **71** | **136** | **63** | **32** | **93** | **1** | **10** | **6** | **1** | **-7** | **39** | **25.4** | **8.6** | **14.8** | **8.3** | **3.9** | **9.7** |
| Seychelles | 54 | 55 | 60 | 56 | 59 | 63 | 10 | 3 | 9 | 7 | 11 | 14 | 34.5 | 26.6 | 31.3 | 30.2 | 28.1 | 31.6 |
| Sierra Leone | 10 | -10 | 6 | 5 | 3 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 46.7 | -27.5 | 17.2 | 9.7 | 6.5 | 6.0 |
| Somalia | 1 | 0 | -1 | 0 | 0 | 0 | .. | .. | .. | .. | .. | .. | 0.5 | 0.0 | -0.4 | 0.1 | 0.0 | -0.1 |
| South Africa | 3 817 | 561 | 1 502 | 888 | 6 789 | 754 | 2 351 | 1 779 | 1 580 | 271 | -3 180 | -401 | 15.5 | 2.5 | 7.4 | 4.7 | 40.4 | 4.8 |
| Sudan | 98 | 371 | 371 | 392 | 574 | 681 | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Swaziland | -15 | 152 | 100 | 39 | 78 | 107 | -10 | 24 | -13 | -16 | 9 | 27 | -5.3 | 49.9 | 38.8 | 13.9 | 33.6 | 50.6 |
| **Tanzania** | **158** | **172** | **517** | **463** | **327** | **240** | **0** | **0** | **0** | **1** | **0** | **0** | **13.8** | **12.8** | **38.9** | **29.3** | **20.8** | **14.8** |
| Togo | 23 | 42 | 70 | 42 | 63 | 75 | 4 | 22 | 41 | 1 | -7 | .. | 11.8 | 17.2 | 30.6 | 18.8 | 27.2 | 29.1 |
| **Tunisia** | **365** | **668** | **368** | **779** | **486** | **821** | **9** | **2** | **3** | **2** | **0** | **1** | **7.8** | **13.5** | **7.0** | **15.2** | **9.3** | **15.8** |
| **Uganda** | **175** | **210** | **222** | **254** | **229** | **275** | **15** | **20** | **-8** | **-28** | **-5** | **-14** | **16.7** | **20.5** | **19.4** | **22.2** | **20.6** | **22.5** |
| **Zambia** | **207** | **198** | **163** | **122** | **72** | **197** | **..** | **..** | **..** | **..** | **..** | **..** | **40.0** | **37.3** | **29.5** | **20.2** | **9.8** | **28.5** |
| **Zimbabwe** | **135** | **444** | **59** | **23** | **4** | **26** | **28** | **9** | **9** | **8** | **4** | **3** | **8.7** | **30.6** | **6.7** | **2.5** | **10.5** | **9.7** |
| **Africa** | **10 667** | **8 928** | **12 232** | **8 489** | **18 769** | **10 998** | **3 788** | **1 997** | **2 574** | **1 309** | **-2 522** | **173** | **10.9** | **8.7** | **12.0** | **8.8** | **19.8** | **11.2** |

**Source:** UNCTAD (2003), World Investment Report.



© AfDB/OECD 2004



An OECD Browse_it Edition • Read Only • Lecture seule

## Table 11 - **Aid Flows, 1997-2002** ($ million)

| | ODA net total, All donors | | | | | | ODA net total, DAC countries | | | | | | ODA net total, Multilateral | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| **Algeria** | **250** | **421** | **138** | **201** | **185** | **361** | **193** | **148** | **86** | **66** | **25** | **123** | **45** | **253** | **21** | **64** | **107** | **95** |
| Angola | 355 | 335 | 388 | 307 | 289 | 421 | 227 | 214 | 252 | 189 | 179 | 286 | 128 | 121 | 136 | 112 | 110 | 136 |
| Benin | 221 | 205 | 211 | 239 | 274 | 220 | 148 | 144 | 119 | 191 | 144 | 140 | 73 | 63 | 93 | 49 | 128 | 78 |
| **Botswana** | **122** | **106** | **61** | **31** | **29** | **38** | **56** | **73** | **41** | **24** | **24** | **37** | **69** | **36** | **21** | **8** | **4** | 3 |
| **Burkina Faso** | **368** | **400** | **398** | **336** | **392** | **473** | **218** | **227** | **232** | **228** | **221** | **230** | **147** | **167** | **157** | **104** | **158** | **198** |
| Burundi | 56 | 67 | 74 | 93 | 137 | 172 | 38 | 44 | 52 | 41 | 55 | 85 | 18 | 24 | 22 | 52 | 83 | 87 |
| **Cameroon** | **499** | **499** | **435** | **380** | **404** | **632** | **330** | **303** | **254** | **213** | **275** | **436** | **171** | **198** | **184** | **169** | **132** | **195** |
| Cape Verde | 111 | 130 | 137 | 94 | 77 | 92 | 68 | 85 | 89 | 70 | 49 | 43 | 43 | 45 | 48 | 25 | 29 | 50 |
| Central African Republic | 91 | 120 | 118 | 75 | 67 | 60 | 61 | 57 | 59 | 53 | 48 | 40 | 30 | 63 | 59 | 22 | 19 | 20 |
| Chad | 228 | 168 | 188 | 131 | 187 | 233 | 96 | 75 | 64 | 53 | 73 | 67 | 126 | 88 | 116 | 77 | 114 | 164 |
| Comoros | 27 | 35 | 21 | 19 | 27 | 32 | 15 | 19 | 13 | 11 | 10 | 11 | 12 | 16 | 8 | 8 | 16 | 17 |
| Congo | 270 | 66 | 142 | 33 | 75 | 420 | 260 | 60 | 121 | 23 | 30 | 41 | 10 | 6 | 20 | 10 | 46 | 378 |
| Congo, Democratic Republic | 158 | 125 | 132 | 184 | 263 | 807 | 105 | 80 | 87 | 103 | 143 | 351 | 44 | 43 | 45 | 81 | 119 | 455 |
| **Côte d'Ivoire** | **446** | **967** | **448** | **352** | **170** | **1 069** | **233** | **490** | **366** | **250** | **159** | **831** | **213** | **477** | **81** | **101** | **11** | **237** |
| Djibouti | 85 | 81 | 75 | 71 | 58 | 78 | 62 | 62 | 55 | 42 | 28 | 37 | 19 | 17 | 19 | 20 | 30 | 39 |
| **Egypt** | **1 985** | **1 955** | **1 582** | **1 328** | **1 257** | **1 286** | **1 497** | **1 472** | **1 298** | **1 139** | **1 090** | **1 124** | **389** | **268** | **211** | **136** | **105** | **131** |
| Equatorial Guinea | 24 | 22 | 20 | 21 | 13 | 20 | 18 | 18 | 15 | 18 | 13 | 14 | 6 | 4 | 6 | 3 | 1 | 7 |
| Eritrea | 123 | 167 | 149 | 176 | 281 | 230 | 81 | 98 | 80 | 112 | 151 | 121 | 26 | 38 | 50 | 55 | 127 | 97 |
| **Ethiopia** | **579** | **660** | **643** | **693** | **1 116** | **1 307** | **374** | **365** | **325** | **379** | **367** | **489** | **198** | **282** | **303** | **298** | **721** | **784** |
| **Gabon** | **39** | **45** | **48** | **12** | **9** | **72** | **30** | **37** | **34** | **-12** | **-8** | **49** | **11** | **9** | **13** | **23** | **17** | **22** |
| Gambia | 39 | 39 | 34 | 49 | 54 | 61 | 17 | 13 | 13 | 15 | 13 | 18 | 23 | 25 | 19 | 32 | 38 | 40 |
| **Ghana** | **494** | **702** | **609** | **600** | **653** | **653** | **292** | **375** | **356** | **376** | **396** | **406** | **189** | **325** | **250** | **222** | **254** | **241** |
| Guinea | 381 | 359 | 238 | 153 | 280 | 250 | 126 | 148 | 111 | 93 | 120 | 126 | 222 | 187 | 109 | 58 | 160 | 118 |
| Guinea Bissau | 124 | 96 | 52 | 80 | 59 | 59 | 59 | 65 | 32 | 42 | 30 | 26 | 66 | 31 | 20 | 39 | 29 | 34 |
| **Kenya** | **448** | **415** | **310** | **512** | **463** | **393** | **301** | **276** | **254** | **293** | **270** | **288** | **145** | **138** | **53** | **214** | **188** | **95** |
| Lesotho | 92 | 61 | 31 | 37 | 56 | 76 | 45 | 33 | 26 | 22 | 29 | 30 | 40 | 30 | 7 | 16 | 28 | 48 |
| Liberia | 76 | 72 | 94 | 68 | 39 | 52 | 31 | 31 | 45 | 24 | 16 | 27 | 44 | 41 | 49 | 44 | 24 | 26 |
| Libya | 7 | 7 | 7 | - | - | - | 2 | 4 | 3 | - | - | - | 5 | 3 | 4 | - | - | - |
| Madagascar | 834 | 481 | 359 | 322 | 366 | 373 | 549 | 334 | 192 | 139 | 138 | 126 | 284 | 148 | 166 | 185 | 229 | 248 |
| Malawi | 344 | 435 | 447 | 446 | 404 | 377 | 174 | 204 | 228 | 269 | 196 | 225 | 171 | 230 | 214 | 171 | 198 | 142 |
| **Mali** | **429** | **347** | **355** | **360** | **354** | **472** | **257** | **236** | **237** | **300** | **209** | **257** | **178** | **117** | **117** | **61** | **132** | **162** |


© AfDB/OECD 2004
An OECD Browse_it Edition • Read Only • Lecture seule

## Table 11 - Aid Flows, 1997-2002 ($ million) (cont.)

| | ODA net total, All donors | | | | | | ODA net total, DAC countries | | | | | | ODA net total, Multilateral | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Mauritania | 238 | 165 | 219 | 212 | 268 | 355 | 97 | 64 | 89 | 82 | 81 | 147 | 154 | 108 | 125 | 129 | 188 | 210 |
| **Mauritius** | **43** | **42** | **42** | **20** | **22** | **24** | **3** | **20** | **5** | **12** | **8** | **4** | **30** | **23** | **37** | **7** | **6** | **20** |
| **Morocco** | **464** | **530** | **679** | **419** | **519** | **636** | **215** | **251** | **333** | **293** | **342** | **219** | **217** | **249** | **316** | **130** | **142** | **283** |
| **Mozambique** | **948** | **1 040** | **805** | **877** | **933** | 2 058 | **622** | **713** | **593** | **624** | **720** | **1661** | **328** | **330** | **213** | **253** | **208** | **394** |
| Namibia | **166** | **181** | **179** | **153** | **110** | **135** | 123 | 129 | 117 | 97 | 77 | 85 | 42 | 51 | 60 | 55 | 31 | 48 |
| Niger | 333 | 292 | 187 | 211 | 257 | 298 | 181 | 145 | 120 | 106 | 114 | 114 | 141 | 146 | 66 | 105 | 142 | 181 |
| **Nigeria** | **200** | **204** | **152** | **185** | **185** | **314** | **52** | **34** | **53** | **84** | **108** | **215** | **149** | **170** | **96** | **100** | **79** | **101** |
| Rwanda | 230 | 350 | 373 | 322 | 299 | 356 | 179 | 209 | 181 | 175 | 149 | 199 | 50 | 141 | 193 | 146 | 150 | 157 |
| São Tomé et Principe | 33 | 28 | 28 | 35 | 38 | 26 | 21 | 18 | 19 | 18 | 22 | 19 | 12 | 10 | 8 | 17 | 16 | 7 |
| **Senegal** | **423** | **501** | **535** | **423** | **413** | **449** | **292** | **289** | **416** | **288** | **224** | **243** | **122** | **211** | **115** | **140** | **189** | **195** |
| Seychelles | 17 | 24 | 13 | 18 | 14 | 8 | 6 | 17 | 5 | 3 | 8 | 4 | 6 | 6 | 6 | 8 | 5 | 4 |
| Sierra Leone | 119 | 106 | 74 | 182 | 345 | 353 | 41 | 53 | 60 | 116 | 167 | 225 | 76 | 51 | 13 | 67 | 176 | 125 |
| Somalia | 81 | 80 | 115 | 104 | 150 | 194 | 46 | 42 | 76 | 56 | 88 | 102 | 34 | 38 | 39 | 47 | 47 | 47 |
| **South Africa** | **496** | **514** | **541** | **488** | **428** | **657** | **415** | **421** | **386** | **354** | **313** | **375** | **81** | **92** | **153** | **132** | **114** | **281** |
| Sudan | 139 | 209 | 243 | 225 | 185 | 351 | 86 | 150 | 159 | 90 | 108 | 232 | 52 | 59 | 58 | 36 | 68 | 68 |
| Swaziland | 28 | 35 | 29 | 13 | 29 | 25 | 16 | 17 | 15 | 3 | 4 | 7 | 10 | 14 | 14 | 10 | 22 | 14 |
| **Tanzania** | **945** | **1 000** | **990** | **1 022** | **1 271** | 1 233 | **569** | **769** | **613** | **779** | **944** | **903** | **373** | **228** | **376** | **246** | **333** | **333** |
| Togo | 125 | 128 | 71 | 70 | 44 | 51 | 76 | 66 | 47 | 52 | 28 | 39 | 51 | 61 | 21 | 16 | 12 | 9 |
| **Tunisia** | **194** | **150** | **253** | **223** | **378** | **475** | **70** | **102** | **102** | **150** | **184** | **145** | **144** | **78** | **161** | **72** | **193** | **288** |
| **Uganda** | **813** | **647** | **590** | **819** | **793** | **638** | **439** | **384** | **357** | **578** | **386** | **466** | **371** | **263** | **232** | **236** | **405** | **167** |
| **Zambia** | **610** | **349** | **624** | **795** | **349** | **641** | **367** | **257** | **340** | **486** | **274** | **360** | **243** | **93** | **283** | **309** | **74** | **279** |
| **Zimbabwe** | **336** | **261** | **245** | **178** | **164** | **201** | **222** | **216** | **219** | **193** | **149** | **178** | **116** | **46** | **25** | **-14** | **19** | **22** |
| Africa | 17 999 | 17 957 | 16 088 | 15 775 | 16 504 | 22 285 | 11 384 | 11 246 | 10 340 | 10 373 | 10 037 | 13 364 | 6 374 | 6 398 | 5 499 | 5 103 | 6 188 | 8 221 |

**Note:** ODA: Overseas development assistance.
DAC: Development Assistance Committee of OECD.

**Source:** OECD (2003), Geographical Distribution on Financial Flows to AID Recipients.





OECD Browse_it Edition • Read Only • An OECD Lecture seule

## 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 | | |
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 2002 | 2002 | 2002 | | | 1997 | 2002 |
| **Algeria** | **30 892** | **30 678** | **27 997** | **25 272** | **22 581** | **22 800** | **67.7** | **40.8** | **93.7** | **18.0** | **58.1** | **23.9** | **27.2** | **18.7** |
| Angola | 9 950 | 10 786 | 10 301 | 9 410 | 9 297 | 10 134 | 155.2 | 104.3 | 87.6 | 3.5 | 29.0 | 67.5 | 19.2 | 10.0 |
| Benin | 1 627 | 1 651 | 1 687 | 1 602 | 1 672 | 1 843 | 76.5 | 69.2 | 91.7 | 67.8 | 32.0 | 0.2 | 8.7 | 11.0 |
| **Botswana** | **575** | **532** | **504** | **453** | **400** | **480** | **11.4** | **9.6** | **96.7** | **68.3** | **28.0** | **3.7** | **2.8** | **2.1** |
| **Burkina Faso** | **1 304** | **1 459** | **1 579** | **1 409** | **1 492** | **1 580** | **50.1** | **50.6** | **88.5** | **89.1** | **10.9** | **0.0** | **13.8** | **16.0** |
| Burundi | 1 066 | 1 119 | 1 131 | 1 103 | 1 070 | 1 204 | 112.8 | 169.2 | 90.9 | 86.6 | 13.1 | 0.3 | 29.0 | 59.0 |
| **Cameroon** | **9 371** | **9 957** | **9 476** | **9 277** | **8 367** | **8 503** | **110.2** | **96.9** | **87.2** | **19.2** | **76.1** | **4.7** | **...** | **...** |
| Cape Verde | 207 | 247 | 327 | 327 | 361 | 414 | 41.4 | 68.2 | 93.1 | 72.6 | 22.2 | 5.1 | 6.8 | 7.6 |
| Central African Republic | 883 | 919 | 909 | 858 | 822 | 1 066 | 89.4 | 99.7 | 91.9 | 59.7 | 36.9 | 3.4 | ... | ... |
| Chad | 1 023 | 1 091 | 1 141 | 1 115 | 1 104 | 1 281 | 68.0 | 65.6 | 89.7 | 86.9 | 11.9 | 1.1 | ... | ... |
| Comoros | 219 | 227 | 228 | 232 | 243 | 270 | 103.3 | 105.8 | 88.8 | 78.8 | 21.2 | 0.0 | ... | ... |
| Congo | 5 071 | 5 119 | 5 033 | 4 887 | 4 491 | 5 152 | 325.0 | 234.7 | 77.1 | 14.3 | 65.8 | 19.9 | 6.4 | 1.0 |
| Congo, Democratic Republic | 12 337 | 13 203 | 12 048 | 11 692 | 11 519 | 8 726 | 428.5 | 158.7 | 84.7 | 32.7 | 65.3 | 2.0 | ... | ... |
| **Côte d Ivoire** | **15 609** | **14 852** | **13 170** | **12 138** | **11 618** | **11 816** | **141.9** | **106.1** | **87.8** | **29.3** | **35.8** | **34.9** | **26.2** | **14.1** |
| Djibouti | 274 | 288 | 275 | 262 | 263 | 335 | 53.2 | 55.0 | 91.0 | 64.5 | 33.7 | 1.8 | ... | ... |
| **Egypt** | **30 102** | **32 440** | **31 045** | **29 187** | **29 331** | **30 750** | **39.2** | **34.2** | **88.7** | **14.2** | **76.2** | **9.6** | **9.6** | **10.3** |
| Equatorial Guinea | 283 | 306 | 271 | 248 | 239 | 260 | 68.1 | ... | 80.3 | 46.7 | 46.8 | 6.6 | ... | ... |
| Eritrea | 76 | 151 | 253 | 311 | 414 | 528 | 8.3 | 70.4 | 94.1 | 64.4 | 35.6 | 0.0 | ... | 4.7 |
| **Ethiopia** | **10 077** | **10 347** | **5 544** | **5 483** | **5 697** | **6 523** | **145.8** | **108.6** | **96.8** | **61.3** | **37.2** | **1.6** | **9.8** | **9.7** |
| **Gabon** | **4 278** | **4 425** | **3 979** | **3 912** | **3 413** | **3 534** | **90.0** | **84.8** | **91.4** | **12.4** | **82.9** | **4.7** | **13.1** | **11.7** |
| Gambia | 425 | 460 | 465 | 483 | 487 | 573 | 105.8 | 163.8 | 87.9 | 78.0 | 21.8 | 0.2 | 11.5 | ... |
| **Ghana** | **6 313** | **6 933** | **6 979** | **6 625** | **6 735** | **7 338** | **93.5** | **121.7** | **87.0** | **64.0** | **23.7** | **12.3** | **32.5** | **8.0** |
| Guinea | 3 519 | 3 546 | 3 522 | 3 388 | 3 254 | 3 401 | 96.1 | 107.9 | 87.4 | 57.5 | 41.6 | 1.0 | 20.7 | 13.6 |
| Guinea-Bissau | 921 | 966 | 934 | 804 | 668 | 699 | 362.3 | 337.8 | 94.7 | 59.0 | 41.0 | 0.0 | 16.5 | ... |
| **Kenya** | **6 456** | **6 808** | **6 450** | **6 159** | **5 562** | **6 031** | **62.2** | **49.2** | **86.0** | **57.2** | **34.2** | **8.6** | **22.1** | **13.6** |
| Lesotho | 674 | 688 | 682 | 671 | 594 | 637 | 49.8 | 67.8 | 95.9 | 80.8 | 8.9 | 10.3 | 6.5 | 11.8 |
| Liberia | 2 012 | 2 103 | 2 077 | 2 032 | 2 164 | 2 324 | 765.8 | 487.3 | 45.8 | 38.2 | 43.4 | 18.4 | ... | 0.6 |
| Libya | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Madagascar | 4 109 | 4 394 | 4 755 | 4 701 | 4 160 | 4 518 | 119.0 | 101.8 | 91.6 | 51.5 | 46.3 | 2.3 | 26.2 | 9.9 |
| Malawi | 2 229 | 2 444 | 2 751 | 2 716 | 2 604 | 2 912 | 89.4 | 156.2 | 92.3 | 84.2 | 15.5 | 0.4 | 14.4 | 7.6 |
| **Mali** | **3 152** | **3 205** | **3 190** | **2 974** | **2 911** | **2 803** | **130.2** | **98.6** | **88.7** | **70.1** | **29.9** | **0.0** | **11.3** | **7.5** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## Table 12 - External Debt Indicators (cont.)

| 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 | | |
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1997 | 2002 | 2002 | 2002 | | | 1997 | 2002 |
| Mauritania | 2 495 | 2 392 | 2 534 | 2 489 | 2 296 | 2 309 | 238.9 | 241.6 | 85.9 | 57.2 | 42.5 | 0.3 | 24.5 | ... |
| **Mauritius** | **1 837** | **1 856** | **1 847** | **1 720** | **1 723** | **1 803** | **42.2** | **39.7** | **50.5** | **30.4** | **34.6** | **35.0** | **8.8** | **8.2** |
| **Morocco** | **23 549** | **23 714** | **22 982** | **20 721** | **19 308** | **18 601** | **73.1** | **51.0** | **90.9** | **33.7** | **36.7** | **29.6** | **27.1** | **23.9** |
| **Mozambique** | **7 632** | **8 289** | **6 965** | **7 038** | **4 449** | **4 609** | **237.2** | **135.2** | **87.6** | **37.0** | **25.5** | **37.5** | **19.2** | **6.1** |
| Namibia | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Niger | 1 556 | 1 650 | 1 668 | 1 686 | 1 589 | 1 797 | 85.7 | 83.3 | 92.2 | 73.4 | 23.4 | 3.2 | ... | ... |
| **Nigeria** | **28 455** | **30 295** | **29 128** | **31 355** | **31 042** | **30 476** | **83.7** | **76.7** | **92.6** | **10.3** | **80.3** | **9.5** | **7.8** | **8.6** |
| Rwanda | 1 111 | 1 226 | 1 292 | 1 271 | 1 283 | 1 435 | 60.5 | 83.6 | 90.9 | 88.6 | 11.3 | 0.1 | 14.1 | 14.9 |
| São Tomé et Principe | 237 | 257 | 320 | 315 | 313 | 333 | 606.1 | 717.9 | 92.4 | 59.9 | 40.1 | 0.0 | .. | 31.8 |
| **Senegal** | **3 687** | **3 883** | **3 766** | **3 428** | **3 482** | **3 918** | **85.7** | **80.0** | **86.1** | **64.6** | **34.0** | **1.4** | **17.2** | **12.6** |
| Seychelles | 149 | 187 | 175 | 215 | 231 | 253 | 25.8 | ... | 59.1 | 37.6 | 52.2 | 10.1 | 3.9 | 2.6 |
| Sierra Leone | 1 200 | 1 314 | 1 298 | 1 229 | 1 295 | 1 448 | 144.3 | 191.0 | 87.2 | 57.2 | 42.6 | 0.2 | ... | ... |
| Somalia | 2 561 | 2 635 | 2 606 | 2 562 | 2 563 | 2 688 | ... | ... | 69.2 | 39.1 | 59.1 | 1.8 | ... | ... |
| **South Africa** | **25 272** | **24 753** | **23 907** | **24 861** | **24 050** | **25 041** | **17.4** | **24.7** | **70.4** | **0.7** | **0.0** | **99.3** | **17.3** | **12.6** |
| Sudan | 16 326 | 16 843 | 16 132 | 15 741 | 15 414 | 16 389 | 158.5 | 124.7 | 58.2 | 20.9 | 57.7 | 21.4 | 5.4 | 0.8 |
| Swaziland | 385 | 275 | 301 | 295 | 303 | 342 | 24.5 | 27.8 | 80.1 | 62.1 | 26.5 | 11.4 | 2.5 | 1.7 |
| **Tanzania** | **7 199** | **7 669** | **8 066** | **7 394** | **6 679** | **7 244** | **94.9** | **77.6** | **85.6** | **57.6** | **41.0** | **1.5** | **13.5** | **8.9** |
| Togo | 1 346 | 1 472 | 1 521 | 1 432 | 1 406 | 1 581 | 91.5 | 116.7 | 84.6 | 61.6 | 38.4 | 0.0 | 10.1 | 2.7 |
| **Tunisia** | **11 230** | **10 850** | **11 880** | **10 629** | **10 877** | **12 625** | **62.4** | **63.0** | **95.3** | **34.9** | **22.5** | **42.6** | **15.8** | **13.5** |
| **Uganda** | **3 878** | **3 912** | **3 492** | **3 503** | **3 743** | **4 100** | **62.0** | **71.4** | **90.0** | **85.5** | **13.4** | **1.0** | **20.2** | **7.1** |
| **Zambia** | **6 669** | **6 879** | **5 868** | **5 731** | **5 671** | **5 969** | **180.0** | **168.5** | **81.2** | **56.8** | **40.4** | **2.9** | **18.2** | **27.8** |
| **Zimbabwe** | **4 919** | **4 669** | **4 440** | **3 911** | **3 726** | **4 066** | **61.3** | **...** | **80.4** | **48.0** | **36.3** | **15.7** | **22.0** | **2.8** |

**Sources:** Global Development Finance Online, World Bank.





OECD Browse_it Edition • Read Only • Lecture seule

## Table 13 - Demographic Indicators

| | Total population (thousands) 2002 | Urban Population (% of total) 2002 | Sex ratio (males per 100 females) 2002 | 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 (%) 2002 0-14 | Distribution by age (%) 2002 15-64 | Distribution by age (%) 2002 65+ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Algeria** | **31 266** | **65.8** | **102.1** | **1.7** | **1.7** | **43.9** | **2.8** | **48** | **33.5** | **62.3** | **4.2** |
| Angola | 13 184 | 37.7 | 97.2 | 2.7 | 3.1 | 140.3 | 7.2 | 247 | 47.6 | 49.7 | 2.7 |
| Benin | 6 558 | 43.8 | 96.8 | 2.7 | 2.6 | 92.7 | 5.7 | 156 | 45.6 | 51.7 | 2.7 |
| **Botswana** | **1 770** | **48.9** | **96.3** | **2.2** | **1.0** | **56.6** | **3.7** | **104** | **39.9** | **57.3** | **2.8** |
| **Burkina Faso** | **12 624** | **20.2** | **95.4** | **2.9** | **2.9** | **93.2** | **6.7** | **160** | **48.9** | **48.5** | **2.7** |
| Burundi | 6 602 | 10.6 | 95.0 | 0.8 | 2.8 | 107.4 | 6.8 | 188 | 46.7 | 50.5 | 2.9 |
| **Cameroon** | **15 729** | **52.2** | **98.5** | **2.4** | **1.9** | **88.1** | **4.6** | **148** | **42.4** | **54.0** | **3.7** |
| Cape Verde | 454 | 65.1 | 91.6 | 2.2 | 2.0 | 29.7 | 3.3 | 36 | 39.8 | 55.6 | 4.6 |
| Central African Republic | 3 819 | 42.2 | 94.4 | 2.1 | 1.4 | 100.4 | 4.9 | 173 | 43.0 | 53.0 | 4.0 |
| Chad | 8 348 | 24.1 | 97.8 | 3.1 | 3.0 | 115.3 | 6.7 | 201 | 46.7 | 50.2 | 3.1 |
| Comoros | 747 | 34.5 | 100.8 | 2.9 | 2.8 | 67.0 | 4.9 | 92 | 42.4 | 55.0 | 2.6 |
| Congo | 3 633 | 55.4 | 97.4 | 3.2 | 2.6 | 84.0 | 6.3 | 125 | 46.8 | 50.3 | 2.9 |
| Congo, Democratic Republic | 51 201 | 34.1 | 98.0 | 2.0 | 2.7 | 119.6 | 6.7 | 219 | 46.9 | 50.5 | 2.6 |
| **Côte d'Ivoire** | **16 365** | **45.8** | **104.0** | **2.0** | **1.6** | **101.3** | **4.7** | **173** | **41.8** | **55.0** | **3.2** |
| Djibouti | 693 | 81.3 | 98.9 | 2.9 | 1.8 | 102.4 | 5.7 | 177 | 42.9 | 53.8 | 3.2 |
| **Egypt** | **70 507** | **46.2** | **99.6** | **1.9** | **2.0** | **40.6** | **3.3** | **48** | **35.3** | **60.2** | **4.6** |
| Equatorial Guinea | 481 | 50.8 | 97.9 | 2.6 | 2.7 | 100.9 | 5.9 | 173 | 43.8 | 52.3 | 3.9 |
| Eritrea | 3 991 | 20.1 | 99.0 | 2.6 | 3.6 | 73.0 | 5.4 | 106 | 45.4 | 52.5 | 2.1 |
| **Ethiopia** | **68 961** | **18.3** | **98.5** | **2.7** | **2.5** | **100.4** | **6.1** | **173** | **45.6** | **51.5** | **2.9** |
| **Gabon** | **1 306** | **82.5** | **98.9** | **2.6** | **1.9** | **56.8** | **4.0** | **92** | **40.8** | **54.7** | **4.4** |
| Gambia | 1 388 | 34.2 | 98.0 | 3.3 | 2.7 | 80.5 | 4.7 | 134 | 40.8 | 55.6 | 3.6 |
| **Ghana** | **20 471** | **42.2** | **99.0** | **2.3** | **2.2** | **57.8** | **4.1** | **93** | **40.1** | **56.5** | **3.3** |
| Guinea | 8 359 | 33.0 | 101.3 | 2.2 | 1.6 | 101.7 | 5.8 | 176 | 44.1 | 53.1 | 2.8 |
| Guinea Bissau | 1 449 | 21.8 | 97.4 | 2.8 | 2.9 | 120.0 | 7.1 | 210 | 47.1 | 49.8 | 3.1 |
| **Kenya** | **31 540** | **35.3** | **97.9** | **2.3** | **1.5** | **69.3** | **4.0** | **118** | **42.1** | **55.0** | **2.9** |
| Lesotho | 1 800 | 38.5 | 86.9 | 1.2 | 0.3 | 92.1 | 3.8 | 152 | 40.0 | 55.2 | 4.7 |
| Liberia | 3 239 | 49.0 | 99.8 | 5.9 | 4.4 | 147.4 | 6.8 | 229 | 46.7 | 51.1 | 2.2 |
| Libya | 5 445 | 96.0 | 106.9 | 1.9 | 1.9 | 20.7 | 3.0 | 23 | 31.7 | 64.6 | 3.8 |
| Madagascar | 16 916 | 31.6 | 99.0 | 2.9 | 2.9 | 91.5 | 5.7 | 147 | 44.5 | 52.4 | 3.0 |
| Malawi | 11 871 | 28.4 | 97.3 | 2.3 | 2.1 | 115.4 | 6.1 | 186 | 46.1 | 50.4 | 3.5 |
| **Mali** | **12 623** | **30.0** | **98.2** | **2.8** | **3.0** | **118.7** | **7.0** | **181** | **49.2** | **48.4** | **2.4** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## Table 13 - Demographic Indicators (cont.)

| | Total population (thousands) 2002 | Urban Population (% of total) 2002 | Sex ratio (males per 100 females) 2002 | 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 (%) 2002 0-14 | Distribution by age (%) 2002 15-64 | Distribution by age (%) 2002 65+ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mauritania | 2 807 | 61.0 | 97.5 | 2.8 | 3.0 | 96.7 | 5.8 | 156 | 43.1 | 53.4 | 3.4 |
| **Mauritius** | **1 210** | **41.1** | **98.8** | **1.1** | **1.0** | **16.0** | **2.0** | **18** | **25.2** | **68.5** | **6.3** |
| **Morocco** | **30 072** | **56.8** | **100.3** | **1.6** | **1.6** | **42.1** | **2.8** | **52** | **31.9** | **63.7** | **4.4** |
| **Mozambique** | **18 537** | **47.6** | **92.7** | **2.4** | **1.8** | **122.0** | **5.6** | **215** | **43.9** | **52.9** | **3.2** |
| Namibia | 1 961 | 29.3 | 95.6 | 2.8 | 1.6 | 59.8 | 4.6 | 107 | 43.0 | 53.2 | 3.8 |
| Niger | 11 544 | 21.9 | 101.9 | 3.4 | 3.6 | 125.7 | 8.0 | 210 | 50.0 | 48.0 | 2.0 |
| **Nigeria** | **120 911** | **44.9** | **101.4** | **2.8** | **2.6** | **78.8** | **5.4** | **133** | **44.6** | **52.4** | **3.1** |
| Rwanda | 8 272 | 6.5 | 90.0 | 6.5 | 3.0 | 111.5 | 5.7 | 179 | 45.3 | 52.2 | 2.5 |
| São Tomé et Principe | 157 | 47.3 | 98.7 | 2.5 | 2.6 | 31.6 | 4.0 | 41 | 40.9 | 54.6 | 4.5 |
| **Senegal** | **9 855** | **50.4** | **98.7** | **2.4** | **2.4** | **60.7** | **5.0** | **112** | **43.4** | **54.2** | **2.4** |
| Seychelles | 83 | 62.9 | ... | 1.3 | 1.3 | ... | ... | ... | ... | ... | ... |
| Sierra Leone | 4 764 | 40.5 | 96.5 | 1.3 | 3.6 | 177.2 | 6.5 | 307 | 44.2 | 53.0 | 2.9 |
| Somalia | 9 480 | 33.1 | 98.5 | 3.1 | 4.2 | 117.7 | 7.3 | 195 | 48.0 | 49.6 | 2.4 |
| **South Africa** | **44 759** | **47.0** | **95.8** | **1.5** | **0.7** | **47.9** | **2.6** | **80** | **33.3** | **62.8** | **3.9** |
| Sudan | 32 878 | 36.5 | 101.2 | 2.3 | 2.2 | 77.0 | 4.4 | 127 | 39.6 | 56.8 | 3.5 |
| Swaziland | 1 069 | 27.9 | 91.2 | 2.1 | 0.9 | 78.3 | 4.5 | 147 | 43.7 | 52.9 | 3.3 |
| **Tanzania** | **36 276** | **35.3** | **98.0** | **2.5** | **2.0** | **99.8** | **5.1** | **162** | **45.2** | **52.4** | **2.4** |
| Togo | 4 801 | 35.7 | 98.1 | 3.2 | 2.5 | 81.5 | 5.3 | 136 | 43.8 | 53.0 | 3.2 |
| **Tunisia** | **9 728** | **68.8** | **101.4** | **1.3** | **1.1** | **23.3** | **2.0** | **26** | **28.6** | **65.6** | **5.9** |
| **Uganda** | **25 004** | **14.3** | **98.8** | **2.9** | **3.2** | **86.1** | **7.1** | **147** | **50.1** | **47.4** | **2.5** |
| **Zambia** | **10 698** | **36.4** | **98.6** | **2.2** | **1.3** | **104.8** | **5.6** | **185** | **46.5** | **50.5** | **3.0** |
| **Zimbabwe** | **12 835** | **35.0** | **98.4** | **1.6** | **0.6** | **58.4** | **3.9** | **114** | **43.1** | **53.4** | **3.5** |
| **Africa** | **831 041** | **39.2** | **98.9** | **2.4** | **2.2** | **81.9** | **4.9** | **136** | **42.2** | **54.5** | **3.3** |

**Sources:** United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2002 Revision and authors' calculations.



© AfDB/OECD 2004



An OECD Browse_it Edition • Read Only • Lecture seule

## 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** | **2.8** | **26.8** |
| Angola | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Benin | 1995 | ... | ... | 33.0 | ... | ... | ... | ... | ... | ... | ... |
| **Botswana** | **1993-94** | **55.0** | **29.0** | **47.0** | **1985-86** | **33.3** | **61.4** | **1993** | **63.0** | **0.7** | **56.6** |
| **Burkina Faso** | **2003** | **52.3** | **19.9** | **46.4** | **1994** | **61.2** | **85.8** | **1998** | **48.2** | **1.8** | **46.3** |
| Burundi | 1990 | ... | ... | 36.2 | 1998 | 58.3 | ... | 1998 | 33.3 | 1.7 | 32.8 |
| **Cameroon** | **2001** | **52.1** | **17.9** | **40.2** | **1996** | **33.4** | **...** | **1996** | **47.7** | **1.8** | **36.5** |
| Cape Verde | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Central African Republic | ... | ... | ... | ... | 1993 | 66.6 | 84.0 | 1993 | 61.3 | 0.7 | 47.7 |
| 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** | **3.0** | **28.8** |
| Djibouti | 1996 | 86.5 | ... | 45.1 | ... | ... | ... | 1996 | 38.6 | 2.3 | 29.9 |
| **Egypt** | **1996** | **23.3** | **22.5** | **22.9** | **1995** | **3.1** | **52.7** | **1999** | **34.4** | **3.7** | **29.5** |
| Equatorial Guinea | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Eritrea | 1994 | ... | ... | 53.0 | ... | ... | ... | ... | ... | ... | ... |
| **Ethiopia** | **1995-96** | **47.0** | **33.0** | **45.0** | **1995** | **31.3** | **76.4** | **2000** | **57.2** | **0.7** | **43.8** |
| **Gabon** | **1994** | **...** | **...** | **62*** | **1994** | **23.0** | **...** | **1977** | **63.2** | **...** | **...** |
| Gambia | 1992 | ... | ... | 64.0 | 1998 | 59.3 | ... | 1998 | 47.8 | 1.5 | 38.0 |
| **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 | 2.6 | 32.0 |
| Guinea Bissau | 1991 | ... | ... | 48.7 | ... | ... | ... | 1993 | 47.0 | 2.1 | 39.3 |
| **Kenya** | **2002** | **55.4** | | | **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 | 1995 | 56.0 | 0.5 | 53.6 |
| Liberia | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Libya | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Madagascar | 1994 | 77.0 | 47.0 | 70.0 | 1993 | 60.2 | 88.8 | 1999 | 46.0 | 2.5 | 28.6 |
| Malawi | 1991 | ... | ... | 54.0 | 1997-98 | 41.7 | ... | 1997 | 50.3 | 1.9 | 42.2 |
| **Mali** | **1999** | **71.0** | **31.0** | **64.2** | **1994** | **72.8** | **90.6** | **1994** | **50.5** | **1.8** | **40.4** |


© AfDB/OECD 2004
An OECD Browse_it Edition • Read Only • Lecture seule

# 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% |
| AMauritania | 1990 | ... | ... | 57.0 | 1995 | 3.8 | 22.1 | 1995 | 37.3 | 2.5 | 28.4 |
| **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 | 1993 | 70.0 | 0.5 | 64.5 |
| Niger | 1993 | 66.0 | 52.0 | 63.0 | 1995 | 61.4 | 85.3 | 1995 | 50.5 | 0.8 | 35.4 |
| **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 | 4.2 | 24.2 |
| São Tomé et Principe | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Senegal** | **2001-02** | **...** | **...** | **57.1** | **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 | 0.5 | 43.6 |
| Somalia | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **South Africa** | **2000** | **...** | **...** | **45.0** | **1993** | **11.5** | **35.8** | **1995** | **59.3** | **0.7** | **46.9** |
| Sudan | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Swaziland | 1995 | ... | ... | 40.0 | ... | ... | ... | 1994 | 60.9 | 1.0 | 50.2 |
| **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** | **2.3** | **31.8** |
| **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** | **1.1** | **41.0** |
| **Zimbabwe** | **1995-96** | **86.4** | **53.4** | **75.6** | **1990-91** | **36.0** | **64.2** | **1995** | **56.8** | **1.8** | **40.3** |

**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 (2003), World Development Report.

An OECD Browse_it Edition • Read Only • Lecture seule



© AfDB/OECD 2004

## Table 15 - Basic Health Indicators

| | Life expectancy at birth (years) | | | Undernourishment prevalence (%) | Food availability (Kcal/person/day) | Total health expenditure | | | | Public health exp. (% of total government expenditure) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | With AIDS | Without AIDS | | | as % of GDP | Per capita ($) | Distribution Public (%) | Distribution Private (%) | |
| | 1995-2000 | 2000-2005 | 2000-2005 | 1998-2001 | 2001 | 2001 | 2001 | 2001 | 2001 | 2001 |
| **Algeria** | **67.9** | **69.7** | ... | **6** | **2 987** | **4.1** | **73** | **75.0** | **25.0** | **9.9** |
| Angola | 40.2 | 40.1 | 44.1 | 50 | 1 953 | 4.4 | 31 | 63.1 | 36.9 | 5.5 |
| Benin | 51.4 | 50.6 | 53.8 | 23 | 2 455 | 4.4 | 16 | 46.9 | 53.1 | 10.9 |
| **Botswana** | **56.3** | **39.7** | **68.1** | **13** | **2 292** | **6.6** | **190** | **66.2** | **33.8** | **7.6** |
| **Burkina Faso** | **45.9** | **45.7** | **54.2** | **34** | **2 485** | **3.0** | **6** | **60.1** | **39.9** | **8.1** |
| Burundi | 39.3 | 40.9 | 51.5 | 69 | 1 612 | 3.6 | 4 | 59.0 | 41.0 | 8.1 |
| **Cameroon** | **52.0** | **46.2** | **56.1** | **25** | **2 242** | **3.3** | **20** | **37.1** | **62.9** | **7.8** |
| Cape Verde | 68.6 | 70.2 | ... | ... | 3 308 | 3.7 | 46 | 74.2 | 25.8 | 8.8 |
| Central African Republic | 42.6 | 39.5 | 53.4 | 44 | 1 949 | 4.5 | 12 | 51.2 | 48.8 | 18.5 |
| Chad | 44.4 | 44.7 | 48.8 | 28 | 2 245 | 2.6 | 5 | 76.0 | 24.0 | 15.2 |
| Comoros | 58.8 | 60.8 | ... | 25 | 1 735 | 3.1 | 9 | 60.0 | 40.0 | 5.8 |
| Congo | 49.2 | 48.2 | 58.1 | 32 | 2 221 | 2.1 | 18 | 63.8 | 36.2 | 5.7 |
| Congo, Democratic Republic | 38.0 | 41.8 | 48.0 | 73 | 1 535 | 3.5 | 5 | 44.4 | 55.6 | 10.3 |
| **Côte d'Ivoire** | **43.2** | **41.0** | **52.6** | **15** | **2 594** | **6.2** | **41** | **16.0** | **84.0** | **6.0** |
| Djibouti | 47.0 | 45.7 | 52.3 | ... | 2 218 | 7.0 | 58 | 58.8 | 41.2 | 13.7 |
| **Egypt** | **67.0** | **68.8** | ... | **4** | **3 385** | **3.9** | **46** | **48.9** | **51.1** | **7.4** |
| Equatorial Guinea | 48.5 | 49.1 | 52.0 | ... | ... | 2.0 | 76 | 60.4 | 39.6 | 10.0 |
| Eritrea | 52.0 | 52.7 | 55.2 | 58 | 1 690 | 5.7 | 10 | 65.1 | 34.9 | 4.5 |
| **Ethiopia** | **46.1** | **45.5** | **52.5** | **47** | **2 037** | **3.6** | **3** | **40.5** | **59.5** | **4.9** |
| **Gabon** | **56.6** | **56.6** | **63.0** | **12** | **2 602** | **3.6** | **127** | **47.9** | **52.1** | **7.3** |
| Gambia | 52.7 | 54.1 | 56.5 | 17 | 2 300 | 6.4 | 19 | 49.4 | 50.6 | 13.6 |
| **Ghana** | **57.3** | **57.9** | **62.6** | **25** | **2 670** | **4.7** | **12** | **59.6** | **40.4** | **8.6** |
| Guinea | 47.0 | 49.1 | 51.5 | 33 | 2 362 | 3.5 | 13 | 54.1 | 45.9 | 11.3 |
| Guinea Bissau | 44.4 | 45.3 | 47.8 | 25 | 2 481 | 5.9 | 8 | 53.8 | 46.2 | 7.4 |
| **Kenya** | **50.7** | **44.6** | **61.3** | **44** | **2 059** | **7.8** | **29** | **21.4** | **78.6** | **6.2** |
| Lesotho | 46.9 | 35.1 | 59.0 | 26 | 2 320 | 5.5 | 23 | 78.9 | 21.1 | 12.0 |
| Liberia | 41.8 | 41.4 | 46.0 | 39 | 1 946 | 4.3 | 1 | 75.9 | 24.1 | 10.6 |
| Libya | 71.6 | 72.8 | ... | ... | 3 333 | 2.9 | 143 | 56.0 | 44.0 | 5.0 |
| Madagascar | 51.6 | 53.6 | ... | 40 | 2 072 | 2.0 | 6 | 65.9 | 34.1 | 7.7 |
| Malawi | 40.7 | 37.5 | 55.2 | 25 | 2 168 | 7.8 | 13 | 35.0 | 65.0 | 12.3 |
| **Mali** | **47.9** | **48.6** | **50.6** | **20** | **2 376** | **4.3** | **11** | **38.6** | **61.4** | **6.8** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## 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 | 1998-2001 | 2001 | 2001 | 2001 | 2001 | 2001 | 2001 |
| Mauritania | 50.5 | 52.5 | ... | 32 | 2 764 | 3.6 | 12 | 72.4 | 27.6 | 10.3 |
| **Mauritius** | **70.7** | **72.0** | ... | **5** | **2 995** | **3.4** | **128** | **59.5** | **40.5** | **7.6** |
| **Morocco** | **66.6** | **68.7** | ... | **7** | **3 046** | **5.1** | **59** | **39.3** | **60.7** | **5.3** |
| **Mozambique** | **41.5** | **38.1** | **48.5** | **55** | **1 980** | **5.9** | **11** | **67.4** | **32.6** | **18.9** |
| Namibia | 54.5 | 44.3 | 65.4 | 9 | 2 745 | 6.7 | 110 | 69.3 | 30.7 | 12.2 |
| Niger | 44.2 | 46.2 | ... | 40 | 2 118 | 3.7 | 6 | 39.1 | 60.9 | 7.7 |
| **Nigeria** | **52.5** | **51.5** | **57.6** | **27** | **2 747** | **3.4** | **15** | **23.2** | **76.8** | **1.9** |
| Rwanda | 35.5 | 39.3 | 50.7 | 40 | 2 086 | 5.5 | 11 | 55.5 | 44.5 | 14.2 |
| São Tomé et Principe | 68.4 | 69.9 | ... | ... | 2 567 | 2.3 | 7 | 67.7 | 32.3 | 3.5 |
| **Senegal** | **50.9** | **52.9** | ... | **25** | **2 277** | **4.8** | **22** | **58.8** | **41.2** | **12.9** |
| Seychelles | ... | ... | ... | ... | 2 461 | 6.0 | 450 | 68.2 | 31.8 | 7.0 |
| Sierra Leone | 34.9 | 34.2 | 37.9 | 47 | 1 913 | 4.3 | 7 | 61.0 | 39.0 | 9.4 |
| Somalia | 44.8 | 47.9 | ... | 71 | ... | 2.6 | 6 | 44.6 | 55.4 | 4.2 |
| **South Africa** | **58.2** | **47.7** | **66.6** | ... | **2 921** | **8.6** | **222** | **41.4** | **58.6** | **10.9** |
| Sudan | 55.0 | 55.6 | 57.5 | 21 | 2 288 | 3.5 | 14 | 18.7 | 81.3 | 4.6 |
| Swaziland | 47.2 | 34.4 | 62.2 | 12 | 2 593 | 3.3 | 41 | 68.5 | 31.5 | 7.5 |
| **Tanzania** | **45.5** | **43.3** | **52.1** | **47** | **1 998** | **4.4** | **12** | **46.7** | **53.3** | **12.1** |
| Togo | 51.8 | 49.7 | 57.0 | 23 | 2 287 | 2.8 | 8 | 48.6 | 51.4 | 9.3 |
| **Tunisia** | **71.7** | **72.8** | ... | **4** | **3 293** | **6.4** | **134** | **75.7** | **24.3** | **15.1** |
| **Uganda** | **41.1** | **46.2** | **55.5** | **21** | **2 398** | **5.9** | **14** | **57.5** | **42.5** | **16.4** |
| **Zambia** | **35.7** | **32.4** | **53.4** | **50** | **1 885** | **5.7** | **19** | **53.1** | **46.9** | **13.5** |
| **Zimbabwe** | **40.8** | **33.1** | **67.6** | **38** | **2 133** | **6.2** | **45** | **45.3** | **54.7** | **8.0** |
| **Africa** | **51.5** | **50.6** | **57.8** | **41** | **2 444** | **5.1** | **35** | **58.6** | **41.4** | **10.8** |

**Sources:** Life expectancy at birth: United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2002 Revision.
Undernourishment prevalence and food availability: FAO, 2002, The State of Food Insecurity in the World 2002.
Total health expenditure and public health expenditure: WHO, The World Health Report 2003.

An OECD Browse_it Edition • Lecture seule • Read Only



© AfDB/OECD 2004

## 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 |
| | | 2002 | | | 2000 | | | 2000 | | | | |
| **Algeria** | **60.6** | **59.7** | **61.6** | **94** | **98** | **88** | **73** | **90** | **47** | **1995** | **84.6** | **297.8** |
| Angola | 33.4 | 31.6 | 35.1 | 38 | 34 | 40 | 44 | 70 | 30 | 1997 | 7.7 | 114.5 |
| Benin | 44.0 | 43.4 | 44.5 | 63 | 55 | 55 | 23 | 46 | 6 | 1995 | 5.7 | 20.4 |
| **Botswana** | **35.7** | **36.0** | **35.4** | **...** | **100** | **...** | **...** | **...** | **...** | **1994** | **23.8** | **219.1** |
| **Burkina Faso** | **35.6** | **34.9** | **36.3** | **...** | **84** | **...** | **29** | **88** | **16** | **1995** | **3.4** | **19.6** |
| Burundi | 35.1 | 33.4 | 36.8 | ... | 96 | ... | ... | 79 | ... | ... | ... | ... |
| **Cameroon** | **41.5** | **41.1** | **41.8** | **62** | **82** | **42** | **92** | **99** | **85** | **1996** | **7.4** | **36.7** |
| Cape Verde | 60.8 | 58.8 | 62.9 | 74 | 64 | 89 | 71 | 95 | 32 | 1996 | 17.1 | 55.6 |
| Central African Republic | 37.4 | 37.0 | 37.7 | 60 | 80 | 46 | 31 | 43 | 23 | 1995 | 3.5 | 8.8 |
| Chad | 40.7 | 39.7 | 41.7 | 27 | 31 | 26 | 29 | 81 | 13 | 1994 | 3.3 | 14.7 |
| Comoros | 54.6 | 53.9 | 55.3 | 96 | 98 | 95 | 98 | 98 | 98 | 1997 | 7.4 | 34.1 |
| Congo | 46.3 | 45.3 | 47.3 | 51 | 71 | 17 | ... | 14 | ... | 1995 | 25.1 | 185.1 |
| Congo, Democratic Republic | 37.1 | 35.0 | 39.1 | 45 | 89 | 26 | 20 | 53 | 6 | 1996 | 6.9 | 44.2 |
| **Côte d'Ivoire** | **39.5** | **37.6** | **41.3** | **77** | **90** | **65** | **...** | **...** | **...** | **1996** | **9.0** | **31.2** |
| Djibouti | 42.9 | 42.5 | 43.2 | 100 | 100 | 100 | 91 | 99 | 50 | 1996 | 14.0 | 74.0 |
| **Egypt** | **59.0** | **57.8** | **60.2** | **95** | **96** | **94** | **94** | **98** | **91** | **1996** | **202.0** | **233.0** |
| Equatorial Guinea | 45.5 | 44.7 | 46.3 | 43 | 45 | 42 | 53 | 60 | 46 | 1996 | 24.6 | 39.5 |
| Eritrea | 50.0 | 49.3 | 50.8 | 66 | 63 | 42 | 13 | 66 | 1 | 1996 | 3.0 | 16.0 |
| **Ethiopia** | **41.2** | **40.7** | **41.7** | **58** | **77** | **13** | **15** | **58** | **6** | **...** | **...** | **...** |
| **Gabon** | **51.4** | **50.2** | **52.6** | **70** | **73** | **55** | **21** | **25** | **4** | **...** | **...** | **...** |
| Gambia | 49.5 | 48.5 | 50.5 | 62 | 80 | 53 | 37 | 41 | 35 | 1997 | 3.5 | 12.5 |
| **Ghana** | **49.8** | **49.2** | **50.3** | **64** | **87** | **49** | **63** | **62** | **64** | **1996** | **6.2** | **72.0** |
| Guinea | 44.8 | 43.9 | 45.6 | 48 | 72 | 36 | 58 | 94 | 41 | 1995 | 13.0 | 55.7 |
| Guinea Bissau | 40.5 | 39.6 | 41.5 | 49 | 29 | 55 | 47 | 88 | 34 | 1996 | 16.6 | 109.4 |
| **Kenya** | **44.4** | **44.1** | **44.8** | **49** | **87** | **31** | **86** | **96** | **81** | **1995** | **13.2** | **90.1** |
| Lesotho | 31.4 | 29.6 | 33.2 | 91 | 98 | 88 | 92 | 93 | 92 | 1995 | 5.4 | 60.1 |
| Liberia | 35.3 | 33.6 | 37.0 | ... | ... | ... | ... | ... | ... | 1997 | 2.3 | 5.9 |
| Libya | 63.7 | 62.3 | 65.0 | 72 | 72 | 68 | 97 | 97 | 96 | 1997 | 128.0 | 360.0 |
| Madagascar | 48.6 | 47.3 | 49.9 | 47 | 85 | 31 | 42 | 70 | 30 | 1996 | 10.7 | 21.6 |
| Malawi | 34.9 | 35.0 | 34.8 | 57 | 95 | 44 | 77 | 96 | 70 | ... | ... | ... |
| **Mali** | **37.9** | **37.5** | **38.3** | **65** | **74** | **61** | **69** | **93** | **58** | **1994** | **4.7** | **13.1** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## 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 |
| | 2002 | | | 2000 | | | 2000 | | | | | |
| Mauritania | 44.5 | 42.8 | 46.3 | 37 | 34 | 40 | 33 | 44 | 19 | 1995 | 13.8 | 62.4 |
| **Mauritius** | **62.4** | **60.3** | **64.6** | **100** | **100** | **100** | **99** | **100** | **99** | **1995** | **85.0** | **232.9** |
| **Morocco** | **60.2** | **59.5** | **60.9** | **82** | **100** | **58** | **75** | **100** | **42** | **1997** | **46.0** | **105.0** |
| **Mozambique** | **36.9** | **36.3** | **37.5** | **60** | **86** | **43** | **43** | **69** | **26** | ... | ... | ... |
| Namibia | 43.3 | 42.9 | 43.8 | 77 | 100 | 67 | 41 | 96 | 17 | 1997 | 29.5 | 168.0 |
| Niger | 35.5 | 35.8 | 35.2 | 59 | 70 | 56 | 20 | 79 | 5 | 1997 | 3.5 | 22.9 |
| **Nigeria** | **41.5** | **41.3** | **41.8** | **57** | **81** | **39** | **63** | **85** | **45** | **1992** | **18.5** | **66.1** |
| Rwanda | 38.3 | 36.4 | 40.2 | 41 | 60 | 40 | 8 | 12 | 8 | ... | ... | ... |
| São Tomé et Principe | 54.4 | 54.2 | 54.7 | ... | ... | ... | ... | ... | ... | 1996 | 46.7 | 127.4 |
| **Senegal** | **48.0** | **47.1** | **48.9** | **78** | **92** | **65** | **70** | **94** | **48** | **1995** | **7.5** | **22.1** |
| Seychelles | 61.2 | 57.4 | 64.9 | ... | ... | ... | ... | ... | ... | 1996 | 132.4 | 467.6 |
| Sierra Leone | 28.6 | 27.2 | 29.9 | 28 | 23 | 31 | 28 | 23 | 31 | 1996 | 7.3 | 33.0 |
| Somalia | 36.8 | 36.1 | 37.5 | ... | ... | ... | ... | ... | ... | 1997 | 4.0 | 20.0 |
| **South Africa** | **44.3** | **43.3** | **45.3** | **86** | **92** | **80** | **86** | **99** | **73** | **1996** | **56.3** | **471.8** |
| Sudan | 48.5 | 47.2 | 49.9 | 75 | 86 | 69 | 62 | 87 | 48 | 1996 | 9.0 | 58.0 |
| Swaziland | 34.2 | 33.2 | 35.2 | ... | ... | ... | ... | ... | ... | 1996 | 15.1 | ... |
| **Tanzania** | **40.4** | **40.0** | **40.7** | **54** | **80** | **42** | **90** | **98** | **86** | **1995** | **4.1** | **85.2** |
| Togo | 44.6 | 43.5 | 45.7 | 54 | 85 | 38 | 34 | 69 | 17 | 1995 | 7.6 | 29.7 |
| **Tunisia** | **62.5** | **61.3** | **63.6** | ... | ... | ... | ... | ... | ... | **1997** | **70.0** | **286.0** |
| **Uganda** | **42.7** | **41.7** | **43.7** | **50** | **72** | **46** | **75** | **96** | **72** | **1996** | ... | **18.7** |
| **Zambia** | **34.9** | **34.8** | **35.0** | **64** | **88** | **48** | **78** | **99** | **64** | **1995** | **6.9** | **113.1** |
| **Zimbabwe** | **33.6** | **33.8** | **33.3** | **85** | **100** | **77** | **68** | **99** | **51** | **1995** | **13.9** | **128.7** |

**Sources:** Healthy life expectancy at birth: WHO, The World Health Report 2003.
Water supply coverage and sanitation coverage: WHO and UNICEF, 2000, Global Water Supply and Sanitation Assessment, 2000 Report.
Health personnel: WHO Statistical Information System.



© AfDB/OECD 2004



An OECD Browse_it Edition • Lecture seule • Read Only

## Table 17 - Major Diseases

| | Total population (000) | People living with HIV/AIDS (000) | HIV/AIDS° Adult prevalence (%) | AIDS orphans cumulative (000) | Malaria notified cases | | Tuberculosis notified cases | Measles Incidence | Vaccination coverage (%) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | | 2001 | | Survey year | Notified cases | 2002 | 2002 | MCV 2002 | DTP3 2002 |
| **Algeria** | **31 266** | **13** | **0.1** | **...** | **1997** | **197** | **18 934** | **5 862** | **81** | **86** |
| Angola | 13 184 | 350 | 5.5 | 100 | 1995 | 156 603 | 29 996 | 11 945 | 74 | 47 |
| Benin | 6 558 | 120 | 3.8 | 34 | 1997 | 670 857 | 2 830 | 1 588 | 78 | 79 |
| **Botswana** | **1 770** | **330** | **39.4** | **69** | **1995** | **17 599** | **10 204** | **7** | **90** | **97** |
| **Burkina Faso** | **12 624** | **440** | **7.5** | **270** | **1995** | **501 020** | **2 376** | **1 744** | **46** | **41** |
| Burundi | 6 602 | 390 | 11.4 | 240 | 1995 | 932 794 | 6 371 | 1 016 | 75 | 74 |
| **Cameroon** | **15 729** | **920** | **12.2** | **210** | **1997** | **645 309** | **11 057** | **1 448** | **62** | **48** |
| Cape Verde | 454 | ... | ... | ... | 1997 | 20 | 195 | 0 | 85 | 94 |
| Central African Republic | 3 819 | 250 | 12.8 | 110 | ... | ... | 4 837 | 938 | 35 | 40 |
| Chad | 8 348 | 150 | 3.6 | 72 | 1995 | 343 186 | 5 077 | 7 277 | 55 | 40 |
| Comoros | 747 | ... | ... | ... | 1996 | 15 509 | 120* | 0 | 71 | 89 |
| Congo | 3 633 | 110 | 7.3 | 78 | 1997 | 9 491 | 9 076 | 2 788 | 37 | 41 |
| Congo, Democratic Republic | 51 201 | 1 300 | 5.0 | 930 | ... | ... | 70 625 | 7 633 | 45 | 43 |
| **Côte d'Ivoire** | **16 365** | **770** | **8.8** | **420** | **1997** | **983 089** | **14 367** | **30 466** | **56** | **54** |
| Djibouti | 693 | ... | ... | ... | 1997 | 4 314 | 3971* | 50 | 62 | 62 |
| **Egypt** | **70 507** | **8** | **0.0** | **...** | **1997** | **11** | **10 762*** | **653** | **97** | **97** |
| Equatorial Guinea | 481 | 6 | 2.6 | ... | 1995 | 12 530 | 416*** | 24 | 51 | 33 |
| Eritrea | 3 991 | 55 | 2.8 | 24 | ... | ... | 2 805 | 460 | 84 | 83 |
| **Ethiopia** | **68 961** | **2 100** | **6.6** | **990** | **1994** | **358 469** | **110 289** | **3 332** | **52** | **56** |
| **Gabon** | **1 306** | **...** | **...** | **...** | **1997** | **35 842** | **2 034** | **110** | **38** | **40** |
| Gambia | 1 388 | 8 | 1.2 | 5 | ... | ... | 1 859 | 25 | 90 | 90 |
| **Ghana** | **20 471** | **360** | **3.4** | **200** | **1997** | **2 227 762** | **11 723** | **12 289** | **81** | **80** |
| Guinea | 8 359 | ... | ... | ... | 1997 | 802 210 | 6 199 | 2 151 | 54 | 47 |
| Guinea Bissau | 1 449 | 17 | 2.9 | 4 | ... | ... | 1 566 | 298 | 47 | 50 |
| **Kenya** | **31 540** | **2 500** | **15.0** | **890** | **1995** | **4 343 190** | **80 183** | **766** | **78** | **84** |
| Lesotho | 1 800 | 360 | 33.5 | 73 | ... | ... | 10 111 | 0 | 70 | 79 |
| Liberia | 3 239 | ... | ... | ... | ... | ... | 1 753*** | 131 | 57 | 51 |
| Libya | 5 445 | 7 | 0.2 | ... | ... | ... | 1341* | 3 890 | 91 | 93 |
| Madagascar | 16 916 | 22 | 0.3 | 6 | ... | ... | 16 082 | 10 795 | 61 | 62 |
| Malawi | 11 871 | 850 | 15.2 | 470 | ... | ... | 24 595 | 92 | 69 | 64 |
| **Mali** | **12 623** | **110** | **2.0** | **70** | **1997** | **384 907** | **4 457** | **717** | **33** | **57** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## Table 17 - Major Diseases (cont.)

| | Total population (000) 2002 | 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 2002 | Measles Incidence 2002 | Vaccination coverage (%) 2002: MCV | Vaccination coverage (%) 2002: DTP3 |
|---|---|---|---|---|---|---|---|---|---|---|
| Mauritania | 2 807 | ... | ... | ... | ... | ... | 3 067* | 883 | 81 | 83 |
| **Mauritius** | **1 210** | **1** | **0.1** | **...** | **1997** | **65** | **139** | | **84** | **88** |
| **Morocco** | **30 072** | **13** | **0.1** | **...** | **2000** | **59** | **28 852*** | **6 000** | **96** | **95** |
| **Mozambique** | **18 537** | **1 100** | **11.7** | **420** | **...** | **...** | **25 544** | **7 155** | **58** | **60** |
| Namibia | 1 961 | 230 | 24.4 | 47 | 1997 | 425 185 | 12 698 | 1 278 | 68 | 77 |
| Niger | 11 544 | ... | ... | ... | 1997 | 978 855 | 4 292* | 31 584 | 48 | 23 |
| **Nigeria** | **120 911** | **3 500** | **6.0** | **1 000** | **1997** | **616 466** | **38 628** | **42 007** | **40** | **26** |
| Rwanda | 8 272 | 500 | 11.4 | 260 | 1997 | 1 210 775 | 6 011 | 2 738 | 69 | 88 |
| São Tomé et Principe | 157 | ... | ... | ... | ... | ... | 94 | 0 | 85 | 92 |
| **Senegal** | **9 855** | **27** | **0.5** | **15** | **1995** | **628 773** | **8 366** | **14 480** | **54** | **60** |
| Seychelles | 80 | 150 | ... | ... | ... | ... | 29 | 0 | 98 | 99 |
| Sierra Leone | 4 764 | 170 | 7.2 | 42 | ... | ... | 4 793 | 568 | 60 | 50 |
| Somalia | 9 480 | 43 | 1.1 | ... | 2000 | 10 364 | 5 686 | 9 559 | 45 | 40 |
| **South Africa** | **44 759** | **5 000** | **19.9** | **660** | **1996** | **29 160** | **215 120** | **1 043** | **78** | **82** |
| Sudan | 32 878 | 450 | 2.6 | 62 | 2000 | 4 332 827 | 24 807* | 4 529 | 49 | 40 |
| Swaziland | 1 069 | 170 | 33.3 | 35 | ... | ... | 6 748 | 37 | 72 | 77 |
| **Tanzania** | **36 276** | **1 500** | **7.8** | **810** | **1997** | **1 131 655** | **60 306** | **5 131** | **89** | **89** |
| Togo | 4 801 | 150 | 6.0 | 63 | ... | ... | 1 645 | 363 | 58 | 64 |
| **Tunisia** | **9 728** | **...** | **...** | **...** | **...** | **...** | **2038*** | **98** | **94** | **96** |
| **Uganda** | **25 004** | **600** | **5.0** | **880** | **...** | **...** | **40 695** | **49 871** | **77** | **72** |
| **Zambia** | **10 698** | **1 200** | **21.1** | **570** | **1996** | **3 215 866** | **54 220** | **25 036** | **85** | **78** |
| **Zimbabwe** | **12 835** | **2 300** | **33.5** | **780** | **1995** | **330 002** | **59 170** | **304** | **58** | **58** |
| **Africa** | **831 038** | **28 650** | **7.0** | **10 910** | **...** | **...** | **1 060 225** | **311 159** | **67** | **67** |

**Notes:** Last data available, *2001; **1999; ***1998.
The 2003 data on HIV/AIDS prevalence will be available on UNAIDS website (www.unaids.org) in late 2004.
According to new estimates by UNAIDS, the 2001 prevalence data are overestimates for some countries, especially in Southern Africa.

**Sources:** UNAIDS and WHO, Report on the Global HIV/AIDS Epidemic 2002; Malaria notified cases : WHO, Roll Back Malaria (RBM) database;
Tuberculosis notified cases: WHO Report 2004; Vaccination coverage: WHO on line (http://www.who.int/vaccines/globalsummary/timeseries/tswucoveragedtp3.htm).
Measles incidence: WHO on line (http://www.who.int/vaccines/globalsummary/timeseries/tsincidencemea.htm).



© AfDB/OECD 2004



An OECD Browse_it Edition • Lecture seule • Read Only

## Table 18 - **Basic Education Indicators**

| | Estimated adult illiteracy rate, 2002 (%) (people over 15) | | | Estimated youth illiteracy rate, 2002 (%) (people between 15 and 24) | | | Public expenditure on education 1998-2001 (% of GDP) |
|---|---|---|---|---|---|---|---|
| | Total | Male | Female | Total | Male | Female | |
| **Algeria** | **31.2** | **22.0** | **40.5** | **10.1** | **6.0** | **14.4** | **5.1** |
| Angola | ... | ... | ... | ... | ... | ... | 3.4 |
| Benin | 60.3 | 45.2 | 74.5 | 44.5 | 27.3 | 61.5 | 3.2 |
| **Botswana** | **21.1** | **23.8** | **18.5** | **10.9** | **14.5** | **7.2** | **9.3** |
| **Burkina Faso** | **74.3** | **64.1** | **84.2** | **63.1** | **52.1** | **74.3** | **1.5** |
| Burundi | 49.6 | 42.3 | 56.5 | 33.9 | 32.8 | 34.9 | 3.9 |
| **Cameroon** | **26.5** | **19.3** | **33.5** | **8.9** | **7.3** | **10.5** | **3.4** |
| Cape Verde | 24.5 | 14.7 | 32.3 | 10.9 | 8.0 | 13.7 | 4.4 |
| Central African Republic | 50.4 | 38.0 | 61.7 | 30.0 | 22.3 | 37.4 | 1.9 |
| Chad | 54.2 | 45.5 | 62.5 | 30.3 | 24.3 | 36.2 | 2.0 |
| Comoros | 43.8 | 36.5 | 50.9 | 41.0 | 34.4 | 47.8 | 3.5 |
| Congo | 17.3 | 11.1 | 23.0 | 2.2 | 1.6 | 2.7 | 5.5 |
| Congo, Democratic Republic | 35.9 | 24.8 | 46.5 | 16.5 | 10.4 | 22.5 | ... |
| **Côte d'Ivoire** | **49.4** | **38.8** | **60.4** | **36.6** | **28.1** | **45.2** | **4.9** |
| Djibouti | 33.1 | 22.7 | 42.8 | 14.4 | 10.4 | 18.4 | 3.4 |
| **Egypt** | **43.1** | **32.3** | **54.2** | **28.8** | **22.6** | **35.3** | **4.1** |
| Equatorial Guinea | 15.2 | 6.8 | 23.2 | 2.6 | 1.3 | 3.9 | 1.9 |
| Eritrea | 42.4 | 31.0 | 53.4 | 28.1 | 18.6 | 37.5 | 4.8 |
| **Ethiopia** | **58.5** | **50.8** | **66.2** | **42.6** | **37.0** | **48.3** | **4.8** |
| **Gabon** | **...** | **...** | **...** | **...** | **...** | **...** | **4.6** |
| Gambia | 61.1 | 53.8 | 68.0 | 39.9 | 32.2 | 47.6 | 2.7 |
| **Ghana** | **26.2** | **18.2** | **34.1** | **7.8** | **5.8** | **9.9** | **4.2** |
| Guinea | ... | ... | ... | ... | ... | ... | 2.1 |
| Guinea Bissau | 59.0 | 43.5 | 73.8 | 39.1 | 25.5 | 52.6 | 2.3 |
| **Kenya** | **15.8** | **10.0** | **21.6** | **4.2** | **3.6** | **4.9** | **6.8** |
| Lesotho | 15.7 | 26.1 | 5.8 | 8.9 | 16.3 | 1.3 | 7.9 |
| Liberia | 44.3 | 27.8 | 60.9 | 29.1 | 13.7 | 44.6 | ... |
| Libya | 18.4 | 8.2 | 29.4 | 3.0 | 0.2 | 6.0 | ... |
| Madagascar | 31.9 | 25.2 | 38.4 | 18.6 | 15.4 | 21.8 | 5.9 |
| Malawi | 38.2 | 24.5 | 51.3 | 27.5 | 18.1 | 37.2 | 4.1 |
| **Mali** | **72.8** | **62.5** | **82.7** | **62.0** | **50.9** | **73.0** | **3.0** |


© AfDB/OECD 2004
An OECD Browse_it Edition • Read Only • Lecture seule

## Table 18 - **Basic Education Indicators** (cont.)

| | Estimated adult illiteracy rate, 2002 (%) (people over 15) | | | Estimated youth illiteracy rate, 2002 (%) (people between 15 and 24) | | | Public expenditure on education 1998-2001 (% of GDP) |
|---|---|---|---|---|---|---|---|
| | Total | Male | Female | Total | Male | Female | |
| Mauritania | 58.8 | 48.5 | 68.7 | 50.4 | 42.6 | 58.2 | 3.6 |
| **Mauritius** | **14.8** | **11.7** | **17.8** | **5.7** | **6.3** | **5.2** | **3.7** |
| **Morocco** | **49.3** | **36.7** | **61.8** | **30.5** | **22.6** | **38.7** | **5.6** |
| **Mozambique** | **53.4** | **37.7** | **68.6** | **37.2** | **23.4** | **50.8** | **2.5** |
| Namibia | 16.6 | 16.1 | 17.2 | 7.7 | 9.4 | 6.0 | 7.9 |
| Niger | 82.9 | 74.9 | 90.6 | 75.5 | 66.0 | 84.9 | 2.8 |
| **Nigeria** | **33.3** | **25.6** | **40.7** | **11.4** | **9.3** | **13.5** | **0.7** |
| Rwanda | 30.8 | 24.7 | 36.7 | 15.1 | 13.7 | 16.4 | 2.8 |
| São Tomé et Principe | ... | ... | ... | ... | ... | ... | ... |
| **Senegal** | **60.7** | **51.0** | **70.3** | **47.1** | **38.7** | **55.5** | **3.5** |
| Seychelles | ... | ... | ... | ... | ... | ... | 7.9 |
| Sierra Leone | ... | ... | ... | ... | ... | ... | 1.0 |
| Somalia | ... | ... | ... | ... | ... | ... | ... |
| **South Africa** | **14.0** | **13.3** | **14.6** | **8.2** | **8.2** | **8.3** | **5.9** |
| Sudan | 40.1 | 29.2 | 51.0 | 20.9 | 16.1 | 25.8 | 0.9 |
| Swaziland | 19.1 | 18.1 | 20.0 | 8.8 | 9.6 | 7.9 | 6.2 |
| **Tanzania** | **23.0** | **14.8** | **30.8** | **8.4** | **6.2** | **10.6** | **2.2** |
| Togo | 40.3 | 25.6 | 54.5 | 22.6 | 11.7 | 33.4 | 4.8 |
| **Tunisia** | **26.9** | **16.9** | **37.0** | **5.7** | **2.1** | **9.4** | **7.8** |
| **Uganda** | **31.2** | **21.3** | **40.8** | **19.8** | **13.7** | **26.0** | **2.3** |
| **Zambia** | **20.2** | **13.7** | **26.3** | **10.8** | **8.5** | **13.1** | **2.5** |
| **Zimbabwe** | **10.0** | **6.3** | **13.7** | **2.4** | **1.1** | **3.8** | **11.1** |
| **Africa** | **37.9** | **29.2** | **46.4** | **21.7** | **17.0** | **26.4** | **5.2** |

**Sources:** UNESCO Institute for Statistics (UIS) Database, Domestic Authorities, Africa Live Database and authors' calculations.



© AfDB/OECD 2004



An OECD Browse_it Edition • Read Only • Lecture seule

## Table 19 - School Enrolment

| | UNESCO primary, 2000/2001 | | | | | | | UNESCO secondary, 2000/2001 | | | | Years of schooling (for 15-64 years old) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross enrolment ratio | | | Net enrolment ratio | | | Pupil/ teacher ratio | Gross enrolment ratio | | | Pupil/ teacher ratio | 2000 |
| | Total | Male | Female | Total | Male | Female | | Total | Male | Female | | |
| **Algeria** | **112.0** | **116.0** | **107.0** | **98.0** | **100.0** | **97.0** | **28.4** | **71.0** | **68.0** | **73.0** | **18.1** | **6.4** |
| Angola | 74.0** | 78.0** | 69.0** | 37.0** | 39.0** | 35.0** | 27.5** | 18.0** | 19.0** | 16.0** | 18.8** | 2.4 |
| Benin | 95.0 | 113.0 | 78.0 | ... | ... | ... | 52.6 | ... | ... | ... | 23.4 | 2.3 |
| **Botswana** | **108.0** | **108.0** | **108.0** | **84.0** | **82.0** | **86.0** | **27.0** | **79.0**** | **77.0**** | **82.0**** | **14.8** | **...** |
| **Burkina Faso** | **44.0** | **52.0** | **37.0** | **36.0** | **42.0** | **29.0** | **48.9** | **10.0** | **12.0** | **8.0** | **29.0**** | **0.9** |
| Burundi | 65.0 | 73.0 | 58.0 | 54.0 | 59.0 | 49.0 | 56.8* | 10.0** | 12.0** | 9.0** | ... | 2.0 |
| **Cameroon** | **108.0***** | **115.0***** | **100.0***** | **...** | **...** | **...** | **69.4** | **...** | **...** | **...** | **...** | **4.7** |
| Cape Verde | 139.0 | 140.0 | 137.0 | 100.0 | 100.0 | 100.0 | ... | 76.0** | 75.0** | 77.0** | ... | ... |
| Central African Republic | 75.0* | 89.0* | 61.0* | 55.0** | 64.0** | 45.0** | ... | ... | ... | ... | ... | 2.9 |
| Chad | 73.0 | 90.0 | 57.0 | 58.0 | 70.0 | 47.0 | 68.6 | ... | ... | ... | 32.2 | ... |
| Comoros | 86.0** | 92.0** | 80.0** | 56.0** | 60.0** | 52.0** | ... | ... | ... | ... | 10.9** | ... |
| Congo | 97.0 | 101.0 | 93.0 | ... | ... | ... | 60.5 | 42.0** | 46.0** | 38.0** | ... | ... |
| Congo, Democratic Republic | ... | ... | ... | ... | ... | ... | ... | 23.0** | 30.0** | 17.0** | ... | ... |
| **Côte d'Ivoire** | **79.0** | **89.0** | **68.0** | **62.0** | **71.0** | **54.0** | **...** | **...** | **...** | **...** | **...** | **3.2** |
| Djibouti | 40.0 | 46.0 | 35.0 | 33.0** | 37.0** | 28.0** | 31.9** | 19.0 | 23.0 | 14.0 | 21.4** | ... |
| **Egypt** | **100.0**** | **103.0**** | **96.0**** | **93.0**** | **95.0**** | **90.0**** | **22.9**** | **86.0**** | **88.0**** | **83.0**** | **16.9**** | **6.8** |
| Equatorial Guinea | 120.0 | 126.0 | 115.0 | 72.0 | 76.0 | 68.0 | 43.4** | ... | ... | ... | 24.9** | ... |
| Eritrea | 59.0 | 65.0 | 54.0 | 41.0 | 44.0 | 38.0 | 47.5 | 28.0 | 33.0 | 24.0 | 54.1 | ... |
| **Ethiopia** | **64.0** | **76.0** | **52.0** | **47.0** | **53.0** | **41.0** | **...** | **18.0**** | **22.0**** | **14.0**** | **...** | **1.9** |
| **Gabon** | **144.0** | **144.0** | **143.0** | **88.0**** | **89.0**** | **87.0**** | **...** | **60.0**** | **61.0**** | **58.0**** | **...** | **5.1** |
| Gambia | 82.0 | 86.0 | 78.0 | 69.0** | 71.0** | 66.0** | 33.2 | 37.0 | 44.0 | 31.0 | 21.1 | ... |
| **Ghana** | **80.0** | **84.0** | **76.0** | **58.0** | **60.0** | **57.0** | **...** | **36.0** | **40.0** | **32.0** | **...** | **5.3** |
| Guinea | 67.0 | 78.0 | 56.0 | 47.0 | 52.0 | 41.0 | 45.6 | ... | ... | ... | ... | ... |
| Guinea Bissau | ... | ... | ... | ... | ... | ... | 44.1 | ... | ... | ... | 20.9** | ... |
| **Kenya** | **94.0**** | **95.0**** | **93.0**** | **69.0**** | **68.0**** | **69.0**** | **...** | **38.0**** | **39.0**** | **36.0**** | **...** | **6.1** |
| Lesotho | 115.0*** | 112.0*** | 118.0*** | 78.0 | 75.0 | 82.0 | ... | 33.0 | 30.0 | 36.0 | ... | ... |
| Liberia | ... | ... | ... | ... | ... | ... | 35.9 | ... | ... | ... | 17.4 | ... |
| Libya | 116.0 | 115.0 | 117.0 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Madagascar | 103.0 | 105.0 | 101.0 | 68.0 | 67.0 | 68.0 | 48.0 | ... | ... | ... | ... | 3.7 |
| Malawi | ... | ... | ... | ... | ... | ... | 45.6 | 36.0** | 40.0** | 31.0** | ... | 4.3 |
| **Mali** | **61.0** | **71.0** | **51.0** | **...** | **...** | **...** | **...** | **...** | **...** | **...** | **...** | **1.1** |



© AfDB/OECD 2004

An OECD Browse_it Edition • Read Only • Lecture seule

## Table 19 - School Enrolment (cont.)

| | UNESCO primary, 2000/2001 | | | | | | | UNESCO secondary, 2000/2001 | | | | Years of schooling (for 15-64 years old) 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross enrolment ratio | | | Net enrolment ratio | | | Pupil/ teacher ratio | Gross enrolment ratio | | | Pupil/ teacher ratio | |
| | Total | Male | Female | Total | Male | Female | | Total | Male | Female | | |
| Mauritania | 83.0 | 86.0 | 80.0 | 64.0** | 66.0** | 62.0** | 45.0 | 21.0 | 22.0 | 20.0 | 26.8 | ... |
| **Mauritius** | **109.0** | **109.0** | **108.0** | **95.0** | **95.0** | **95.0** | **26.1** | **77.0** | **79.0** | **75.0** | **...** | **7.6** |
| **Morocco** | **94.0** | **101.0** | **88.0** | **78.0**** | **82.0**** | **74.0**** | **28.8** | **...** | **...** | **...** | **16.9**** | **3.6** |
| **Mozambique** | **92.0** | **104.0** | **79.0** | **54.0** | **59.0** | **50.0** | **61.5** | **12.0**** | **14.0**** | **9.0**** | **32.0**** | **2.4** |
| Namibia | 112.0 | 112.0 | 113.0 | 82.0 | 79.0 | 84.0 | 31.8 | 62.0 | 58.0 | 65.0 | 23.8 | ... |
| Niger | 35.0 | 42.0 | 29.0 | 30.0 | 36.0 | 24.0 | 40.7 | 6.0** | 8.0** | 5.0** | 23.4** | 1.0 |
| **Nigeria** | **...** | **...** | **...** | **...** | **...** | **...** | **...** | **...** | **...** | **...** | **...** | **3.9** |
| Rwanda | 119.0 | 119.0 | 118.0 | ... | ... | ... | 54.0 | 14.0 | 14.0 | 14.0 | ... | ... |
| São Tomé et Principe | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Senegal** | **75.0** | **79.0** | **70.0** | **63.0**** | **66.0**** | **60.0**** | **50.9** | **18.0**** | **21.0**** | **14.0**** | **...** | **2.6** |
| Seychelles | ... | ... | ... | ... | ... | ... | 14.7 | ... | ... | ... | ... | 3.6 |
| Sierra Leone | ... | ... | ... | ... | ... | ... | 29.7 | 26.0 | 29.0 | 24.0 | 23.1 | ... |
| Somalia | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **South Africa** | **111.0** | **115.0** | **108.0** | **89.0**** | **90.0**** | **88.0**** | **35.0** | **87.0** | **83.0** | **91.0** | **...** | **7.4** |
| Sudan | 59.0 | 64.0 | 54.0 | 49.0** | 54.0** | 45.0** | 26.7** | ... | ... | ... | 23.0** | 2.9 |
| Swaziland | 125.0** | 128.0** | 121.0** | 93.0** | 92.0** | 94.0** | 33.2 | ... | ... | ... | ... | ... |
| **Tanzania** | **63.0**** | **63.0**** | **63.0**** | **47.0**** | **46.0**** | **48.0**** | **40.4** | **39.0**** | **54.0**** | **24.0**** | **16.4** | **3.5** |
| Togo | 124.0 | 138.0 | 110.0 | 91.0 | 100.0 | 82.0 | 37.5 | 78.0 | 76.0 | 80.0 | 31.5** | ... |
| **Tunisia** | **117.0** | **120.0** | **115.0** | **99.0** | **100.0** | **99.0** | **23.2** | **...** | **...** | **...** | **19.1** | **4.4** |
| **Uganda** | **...** | **...** | **...** | **...** | **...** | **...** | **59.4** | **6.0**** | **6.0**** | **5.0**** | **...** | **3.3** |
| **Zambia** | **78.0** | **80.0** | **76.0** | **66.0** | **66.0** | **65.0** | **47.3** | **24.0**** | **26.0**** | **21.0**** | **16.5** | **6.1** |
| **Zimbabwe** | **95.0** | **96.0** | **93.0** | **80.0** | **80.0** | **80.0** | **41.0** | **44.0** | **47.0** | **42.0** | **...** | **8.3** |
| **Africa** | **89.2** | **95.5** | **83.7** | **65.0** | **68.0** | **61.9** | **45.4** | **40.8** | **42.4** | **38.2** | **26.1** | **4.0** |

**Note:** * National estimation.
** UNESCO Institute for Statistics (UIS) estimation.
*** Introduction of free universal primary education.

**Sources:** UNESCO Institute for Statistics (UIS) Database estimation, August 2003.
Years of schooling: Growth and Human Capital: Good Data, Good Results, Daniel Cohen and Marcello Soto (September 2001), OECD Development Centre Technical Paper.



© AfDB/OECD 2004



An OECD Browse_it Edition • Read Only • Lecture seule

## Table 20 - Corruption Perception Index

| | 1998 | | 1999 | | 2000 | | 2001 | | 2002 | | 2003 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Index | Country Rank / 85 | Index | Country Rank / 99 | Index | Country Rank / 88 | Index | Country Rank / 90 | Index | Country Rank / 102 | Index | Country Rank / 133 |
| **Algeria** | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | 2.6 | 88 |
| Angola | ... | ... | ... | ... | 1.7 | 85 | ... | ... | 1.7 | 98 | 1.8 | 124 |
| Benin | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Botswana** | 6.1 | 23 | 6.1 | 24 | 6.0 | 24 | 6.0 | 26 | 6.4 | 24 | 5.7 | 30 |
| **Burkina Faso** | ... | ... | ... | ... | 3.0 | 63 | ... | ... | ... | ... | ... | ... |
| Burundi | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Cameroon** | 1.4 | 85 | 1.5 | 99 | 2.0 | 82 | 2.0 | 84 | 2.2 | 89 | 1.8 | 124 |
| Cape Verde | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Central African Republic | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Chad | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Comoros | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Congo | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | 2.2 | 113 |
| Congo, Democratic Republic | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Côte d'Ivoire** | 3.1 | 59 | 2.6 | 75 | 2.7 | 69 | 2.4 | 77 | 2.7 | 71 | 2.1 | 118 |
| Djibouti | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Egypt** | 2.9 | 66 | 3.3 | 63 | 3.1 | 13 | 3.6 | 54 | 3.4 | 62 | 3.3 | 70 |
| Equatorial Guinea | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Eritrea | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Ethiopia** | ... | ... | ... | ... | 3.2 | 58 | ... | ... | 3.5 | 59 | 2.5 | 92 |
| **Gabon** | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Gambia | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | 2.5 | 92 |
| **Ghana** | 3.3 | 55 | 3.3 | 63 | 3.5 | 50 | 3.4 | 59 | 3.9 | 50 | 3.3 | 70 |
| Guinea | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Guinea Bissau | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Kenya** | 2.5 | 74 | 2.0 | 90 | 2.1 | 80 | 2.0 | 84 | 1.9 | 96 | 1.9 | 122 |
| Lesotho | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Liberia | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Libya | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | 2.1 | 118 |
| Madagascar | ... | ... | ... | ... | ... | ... | ... | ... | 1.7 | 98 | 2.6 | 88 |
| Malawi | 4.1 | 45 | 4.1 | 45 | 4.1 | 43 | 3.2 | 61 | 2.9 | 68 | 2.8 | 83 |
| **Mali** | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | 3.0 | 78 |

An OECD Browse_it Edition • Read Only • Lecture seule



© AfDB/OECD 2004

## 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 | 2003 Index | 2003 Country Rank / 133 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mauritania | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Mauritius** | **5.0** | **33** | **4.9** | **36** | **4.7** | **35** | **4.5** | **40** | **4.5** | **40** | **4.4** | **48** |
| **Morocco** | **3.7** | **50** | **4.1** | **45** | **4.7** | **35** | **...** | **...** | **3.7** | **52** | **3.3** | **70** |
| **Mozambique** | **...** | **...** | **3.5** | **56** | **2.2** | **79** | **...** | **...** | **...** | **...** | **2.7** | **86** |
| Namibia | 5.3 | 29 | 5.3 | 29 | 5.4 | 28 | 5.4 | 30 | 5.7 | 28 | 4.7 | 41 |
| Niger | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Nigeria** | **1.9** | **81** | **1.6** | **98** | **1.2** | **88** | **1.0** | **90** | **1.6** | **101** | **1.4** | **132** |
| Rwanda | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| São Tomé et Principe | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Senegal** | **3.3** | **55** | **3.4** | **58** | **3.5** | **50** | **2.9** | **65** | **3.1** | **66** | **3.2** | **76** |
| Seychelles | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Sierra Leone | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | 2.2 | 113 |
| Somalia | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **South Africa** | **5.2** | **32** | **5.0** | **34** | **5.0** | **32** | **4.8** | **38** | **4.8** | **36** | **4.4** | **48** |
| Sudan | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | 2.3 | 106 |
| Swaziland | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Tanzania** | **1.9** | **81** | **1.9** | **93** | **2.5** | **74** | **2.2** | **82** | **2.7** | **71** | **2.5** | **92** |
| Togo | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Tunisia** | **5.0** | **33** | **5.0** | **34** | **5.2** | **32** | **5.3** | **31** | **4.8** | **36** | **4.9** | **39** |
| **Uganda** | **2.6** | **73** | **2.2** | **87** | **2.3** | **78** | **1.9** | **88** | **2.1** | **93** | **2.2** | **113** |
| **Zambia** | **3.5** | **52** | **3.5** | **56** | **3.4** | **57** | **2.6** | **75** | **2.6** | **77** | **2.5** | **92** |
| **Zimbabwe** | **4.2** | **43** | **4.1** | **45** | **3.0** | **63** | **2.9** | **65** | **2.7** | **71** | **2.3** | **106** |

**Source:** Transparency International.

An OECD Browse_it Edition • Lecture seule • Read Only

OECD Browse_it Edition • Read Only • Lecture seule

## Table 21 - Political Troubles

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|
| Algeria | 121.4 | 124.2 | 126.6 | 141.6 | 120.3 | 142.5 | 64.8 | 14.5 |
| Botswana | 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 | 2.5 | 0.1 |
| Cameroon | 23.7 | 54.7 | 1.3 | 1.5 | 2.2 | 1.0 | 0.6 | 0.8 |
| Chad | 4.4 | 5.6 | 2.2 | 20.2 | 26.7 | 16.7 | 10.5 | 2.9 |
| Côte d'Ivoire | 16.4 | 3.8 | 3.4 | 21.7 | 28.1 | 2.9 | 13.7 | 18.8 |
| Egypt | 22.9 | 43.6 | 0.0 | 1.0 | 7.8 | 7.2 | 2.0 | 5.4 |
| Equatorial Guinea | 1.9 | 0.0 | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Ethiopia | 48.5 | 12.2 | 1.6 | 24.8 | 5.7 | 8.4 | 42.6 | 15.2 |
| Gabon | 10.0 | 1.0 | 2.5 | 0.9 | 0.0 | 0.0 | 1.5 | 0.0 |
| Ghana | 4.9 | 0.0 | 0.3 | 4.5 | 1.9 | 3.8 | 3.8 | 1.1 |
| Kenya | 14.8 | 25.5 | 34.1 | 0.0 | 0.0 | 11.6 | 1.9 | 6.8 |
| Mali | 3.4 | 13.7 | 1.2 | 8.8 | 0.0 | 0.0 | 0.0 | 0.6 |
| Mauritius | 0.0 | 0.0 | 0.0 | 5.2 | 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 |
| Mozambique | 37.7 | 0.0 | 0.0 | 2.7 | 6.8 | 0.0 | 0.0 | 4.5 |
| Namibia | 3.5 | 0.0 | 0.0 | 7.6 | 3.8 | 0.0 | 0.0 | 0.0 |
| Nigeria | 30.2 | 51.3 | 10.2 | 47.1 | 29.2 | 39.7 | 19.4 | 10.4 |
| Senegal | 0.3 | 19.6 | 2.7 | 5.6 | 5.7 | 5.9 | 7.7 | 6.7 |
| South Africa | 85.0 | 40.8 | 20.3 | 38.8 | 18.9 | 2.2 | 3.3 | 1.2 |
| Tanzania | 4.7 | 1.9 | 0.9 | 0.0 | 0.0 | 6.0 | 0.0 | 0.5 |
| Tunisia | 0.0 | 0.0 | 0.5 | 2.5 | 0.5 | 0.0 | 2.9 | 2.3 |
| Uganda | 81.3 | 15.3 | 10.5 | 9.6 | 0.0 | 23.9 | 14.3 | 17.2 |
| Zambia | 4.8 | 4.6 | 4.9 | 3.6 | 0.6 | 17.6 | 1.1 | 5.7 |
| Zimbabwe | 9.6 | 9.7 | 11.3 | 5.4 | 16.8 | 12.6 | 16.5 | 8.8 |

**Note:** See note on methodology.
**Source:** Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*



## Table 22 - Softening of the Regime

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|
| Algeria | 1.3 | 3.6 | 0.8 | 1.9 | 0.7 | 0.0 | 3.0 | 2.6 |
| Botswana | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Burkina Faso | 0.4 | 0.4 | 0.0 | 0.0 | 1.1 | 0.0 | 0.7 | 0.1 |
| Cameroon | 0.7 | 2.0 | 0.8 | 0.0 | 0.1 | 0.8 | 0.0 | 0.7 |
| Chad | 4.5 | 4.0 | 0.0 | 1.8 | 0.5 | 1.1 | 2.7 | 3.2 |
| Côte d'Ivoire | 1.5 | 2.1 | 1.0 | 1.1 | 2.6 | 3.9 | 1.8 | 6.9 |
| Egypt | 0.1 | 0.0 | 0.0 | 1.4 | 1.9 | 0.2 | 0.6 | 2.6 |
| Equatorial Guinea | 0.0 | 2.6 | 0.0 | 0.8 | 0.7 | 0.5 | 1.8 | 1.5 |
| Ethiopia | 0.1 | 0.1 | 0.8 | 0.0 | 0.1 | 1.6 | 0.0 | 0.0 |
| Gabon | 0.0 | 0.5 | 0.5 | 0.0 | 0.1 | 0.0 | 1.1 | 0.4 |
| Ghana | 0.9 | 0.1 | 0.0 | 0.0 | 1.1 | 0.2 | 0.0 | 0.0 |
| Kenya | 0.9 | 0.7 | 0.6 | 0.0 | 0.0 | 1.1 | 0.0 | 2.7 |
| Mali | 1.4 | 2.3 | 0.9 | 1.7 | 1.4 | 0.1 | 1.3 | 0.0 |
| Mauritius | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Morocco | 0.9 | 0.6 | 0.6 | 0.0 | 2.1 | 0.0 | 0.9 | 1.0 |
| Mozambique | 0.1 | 0.0 | 0.0 | 0.0 | 0.7 | 1.5 | 0.7 | 0.1 |
| Namibia | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 1.1 | 0.0 | 0.5 |
| Nigeria | 1.1 | 1.8 | 6.6 | 3.4 | 0.3 | 0.0 | 0.9 | 0.6 |
| Senegal | 0.5 | 0.7 | 0.0 | 2.4 | 1.1 | 1.6 | 0.1 | 0.0 |
| South Africa | 3.1 | 2.3 | 0.8 | 2.0 | 0.9 | 2.2 | 0.9 | 0.5 |
| Tanzania | 0.2 | 0.1 | 0.1 | 1.6 | 0.0 | 1.6 | 0.7 | 0.0 |
| Tunisia | 1.4 | 0.7 | 0.1 | 2.8 | 0.7 | 1.8 | 3.0 | 0.7 |
| Uganda | 0.0 | 0.4 | 0.4 | 0.6 | 0.7 | 0.1 | 0.4 | 0.9 |
| Zambia | 1.4 | 0.0 | 1.7 | 0.7 | 0.0 | 1.2 | 1.3 | 1.6 |
| Zimbabwe | 0.1 | 0.1 | 0.0 | 0.2 | 1.2 | 0.6 | 1.5 | 2.5 |

**Note:** See note on methodology.
**Source:** Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*


© AfDB/OECD 2004

OECD Browse_it Edition • Lecture seule • Read Only



## Table 23 - Hardening of the Regime

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|
| Algeria | 11.9 | 6.5 | 4.3 | 2.5 | 0.3 | 8.1 | 15.0 | 4.5 |
| Botswana | 0.3 | 0.5 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Burkina Faso | 0.8 | 1.9 | 0.6 | 4.5 | 1.6 | 1.1 | 2.7 | 2.4 |
| Cameroon | 7.4 | 5.9 | 1.9 | 1.6 | 1.0 | 3.3 | 0.9 | 2.2 |
| Chad | 2.9 | 1.0 | 1.4 | 0.0 | 1.1 | 2.6 | 1.7 | 0.0 |
| Côte d'Ivoire | 2.9 | 2.5 | 0.7 | 10.2 | 7.8 | 1.4 | 3.2 | 7.2 |
| Egypt | 9.4 | 6.8 | 5.5 | 2.0 | 7.7 | 3.9 | 11.5 | 4.8 |
| Equatorial Guinea | 0.0 | 1.2 | 5.0 | 0.0 | 0.0 | 0.9 | 5.7 | 0.5 |
| Ethiopia | 7.5 | 3.9 | 2.4 | 0.0 | 0.7 | 3.6 | 8.4 | 1.2 |
| Gabon | 1.0 | 5.1 | 0.7 | 2.1 | 0.4 | 0.0 | 0.5 | 1.3 |
| Ghana | 2.2 | 0.8 | 2.5 | 2.4 | 0.0 | 0.8 | 1.3 | 0.0 |
| Kenya | 3.9 | 11.0 | 3.6 | 0.0 | 0.0 | 0.7 | 1.2 | 2.0 |
| Mali | 0.4 | 5.1 | 0.0 | 0.4 | 1.2 | 1.1 | 0.3 | 1.0 |
| Mauritius | 0.3 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 2.2 |
| Morocco | 5.0 | 3.7 | 1.4 | 1.2 | 3.4 | 2.9 | 2.5 | 3.7 |
| Mozambique | 0.3 | 0.9 | 2.3 | 1.1 | 3.7 | 1.2 | 0.0 | 0.4 |
| Namibia | 0.0 | 0.3 | 0.0 | 1.2 | 1.6 | 0.3 | 0.3 | 0.8 |
| Nigeria | 125.5 | 9.1 | 5.8 | 4.2 | 4.5 | 2.8 | 2.4 | 3.5 |
| Senegal | 1.7 | 3.3 | 2.7 | 0.3 | 0.0 | 1.7 | 1.1 | 1.4 |
| South Africa | 18.6 | 14.3 | 6.1 | 4.5 | 1.9 | 1.2 | 1.8 | 1.7 |
| Tanzania | 1.3 | 0.4 | 0.5 | 0.0 | 0.3 | 0.4 | 0.0 | 0.5 |
| Tunisia | 3.9 | 1.5 | 1.5 | 2.4 | 1.4 | 3.3 | 2.9 | 1.6 |
| Uganda | 3.1 | 0.0 | 0.7 | 0.9 | 0.0 | 5.8 | 1.3 | 3.8 |
| Zambia | 5.5 | 8.5 | 3.9 | 3.0 | 1.1 | 4.7 | 5.2 | 1.5 |
| Zimbabwe | 4.0 | 3.7 | 7.7 | 5.1 | 4.8 | 12.5 | 17.5 | 15.5 |

**Note:** See note on methodology.
**Source:** Authors' calculations based on *Marchés Tropicaux et Méditerranéens*.



© AfDB/OECD 2004 

An OECD Browse_it Edition • Read Only • Lecture seule