African Economic Outlook

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

THE AFRICAN DEVELOPMENT BANK GROUP

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

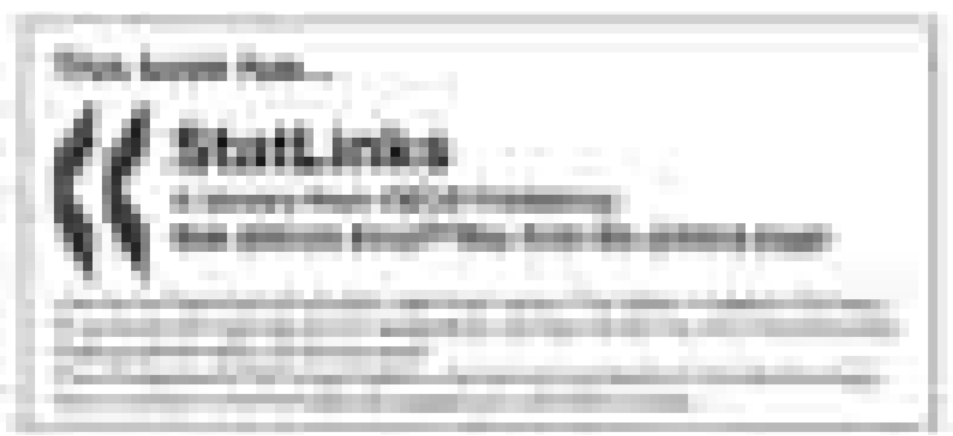
The non-concessional operations of the Bank are financed from its ordinary capital resources. In addition, the Bank's soft window affiliates – the African Development Fund and the Nigeria Trust Fund – provide concessional financing to low-income countries that are not able to sustain loans on market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

By the end of 2005, the African Development Bank Group cumulatively approved 2 988 loans and grants for commitments of close to $50 billion. The commitments were made to 52 regional member countries and institutions to support development projects and programs in agriculture, transport, public utilities, industry, education, and health sectors. Since the mid-1980s, a significant share of commitments has also gone to promoting economic reform and adjustment programs that help to accelerate socio-economic development. About 60 per cent of total Bank Group commitments were financed on non-concessional terms, while the balance benefited from concessional financing.

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.



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Preface

This fifth edition of our joint *African Economic Outlook* continues to provide an insightful, broad overview of the economies of Africa. We are pleased to observe the steadily growing importance that public opinion and policy makers attach to the *AEO*. Our two institutions are proud to come together in making this contribution to enhancing understanding of the continent.

For most African countries the prospects of attaining the Millennium Development Goals remain a challenge. This year's *AEO,* however, does find some grounds for optimism as many countries saw their economic performance improve in 2005 as a result of favourable commodity prices, increased aid flows, debt forgiveness and on-going reforms which have started to bear fruit. Macroeconomic stability was by and large maintained despite the increase in fuel and food prices. Mobilisation for reforms has played a part in this rise in optimism; so has the growing support of the international community, which has been given added impetus by the Commission on Africa and the Gleneagles G8 Summit.

While prospects for much of Africa are more favourable than they have been in the recent past, human security continues to be severely affected by weak governance structures, conflicts and the vulnerability that accompanies extreme poverty. This is deterring investment and impeding the effective entry of African countries into the global economy.

We are glad to note that the first of the African Peer Review Mechanism (APRM) reviews was completed in January 2006 signifying continued efforts to improve governance. Resource-rich countries will need to ensure that a substantial part of the windfall gains, now accruing to their treasuries due to favourable terms of trade, is invested in infrastructure and human capital development to support their medium- and long-term development.

The 2005/2006 *AEO* highlights the issue of infrastructure. The weak state of infrastructure and the poor quality of service, increase costs of doing business and hamper private sector development in Africa. Attempts over the last decade to upgrade infrastructure and encourage private-sector participation have shown their limits. Both African governments and the donor community will need to continue developing innovative approaches for raising additional public and private resources to provide better transport infrastructure to the peoples of Africa.

The year 2005 has been called the "Year of Africa". Many African governments have taken promising steps towards restructuring their countries' economies. In many countries, democracy is becoming deeply rooted, leading in turn to increased participation by civil society in the political process. Supported by the NEPAD initiative, under the auspices of the African Union, substantial progress has been achieved towards regional co-operation. Furthermore, there seems to be a resurgent commitment on the part of the international community to support Africa for a "big push". These developments augur well for the future.

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April 2006

Part One

Overview

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All tables and graphs in this section are available in Excel format at:
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The 30 countries examined in this fifth edition of the *African Economic Outlook* account for about 86 per cent of Africa's population and 90 per cent of its economic output. The countries are:

- In North Africa: Algeria, Egypt, Morocco and Tunisia.
- In West Africa: Benin, Burkina Faso, Côte d'Ivoire, Ghana, Mali, Niger, Nigeria and Senegal.
- In Central Africa: Cameroon, Chad, the Republic of Congo, the Democratic Republic of Congo, Gabon and Rwanda.
- In East Africa: Ethiopia, Kenya, Madagascar, Mauritius, Tanzania and Uganda.
- In Southern Africa: Angola, Botswana, Malawi, Mozambique, South Africa and Zambia.

Our comparative assessment provides a continent-wide perspective, drawing on the country studies and supplementary analysis from the OECD Development Centre and the African Development Bank. In this year's edition, the special focus is on promoting and financing transport infrastructure (TI).

Economic activity in Africa is estimated to have risen by nearly 5 per cent in 2005, and is expected to increase to 5.8 per cent and 5.5 per cent in 2006 and 2007, respectively. Oil-exporting countries, however, are outpacing others by a substantial margin. Moreover, some countries continue to face serious problems – including the humanitarian catastrophe in the Darfur region of Sudan, the economic collapse in Zimbabwe, drought and food crisis affecting several areas in a number of East, West, and Southern African countries, conflicts and political unrest in Ethiopia, Côte d'Ivoire and in the Eastern part of the Democratic Republic of Congo, and security problems the oil-rich delta region of Nigeria which are likely to dampen their growth prospects. Nonetheless, the outlook for much of Africa continues to be more favourable than it has been for many years. The continued global expansion — with the concomitant sustained demand for oil and other industrial raw materials at higher prices — a significant increase in official development aid to Africa, driven largely by debt relief and emergency assistance, and improving macroeconomic stability have all contributed to this positive economic outlook. In addition, growth has been boosted by increased oil production in Southern and Central Africa and some improvements in the security situation.

Inflation has remained at historical lows despite increasing oil prices. Trade balances have improved in many countries, with the largest gains for exporters of oil and metal ores, while some countries were adversely affected by higher import bills and lower prices for some agricultural products, cocoa and cotton in particular. The windfall gains from commodity prices have improved public finances, notably in oil-exporting countries. These gains will need to be managed carefully with a sizeable proportion used for investment in transport and other infrastructure and in human resource development to lay the basis for sustained economic growth once the current commodity boom has run its course. In that respect, the *Outlook* identifies recent efforts by a number of oil-exporting countries to improve the transparency of their petroleum-sector operations and introduce fiscal rules for the use of oil revenue. Maintaining such policies in the face of political pressures is not without its difficulties, however, as shown by the recent controversy over the use of oil revenues in Chad.

The challenge for oil-importing countries is somewhat different, of course. The GDP growth forecasts in this edition of the AEO are associated with increases in current account deficits that result from sustained higher oil prices even while the boom in non-oil commodity prices appears largely to have run its course. Thus, the forecasts assume that the additional funds required to finance the deficits will be forthcoming. In a number of countries, price controls and subsidies have shielded consumers from the full effects of the oil price increases, and these policies may prove to be unsustainable. This set of challenges for macroeconomic policy is one of the downside risks which must be borne in mind in assessing the current economic outlook for Africa.

Another challenge is associated with the widening of the large imbalances in the global economy. Should these unwind in a disorderly fashion, with sharp sudden movements in exchange rates, a precipitous decline in world output and, thus, demand for African exports, cannot be excluded.

After a significant decline throughout much of the last decade, aid levels have increased in recent years and Africa is the continent that has benefited the most. The launch of NEPAD, the Monterrey consensus on financing for development in 2002, and the implementation of the Heavily Indebted Poor Countries (HIPC) initiative and the commitments made at the G8 Gleneagles Summit – which are expected to further ease external debt burdens significantly – have all played important roles in increasing flows of development finance to Africa. Nonetheless, it remains to be seen whether the amount of aid will continue to increase, once the temporary surge in debt relief and emergency aid has passed. The question is, therefore, whether donors will be able to mobilise sufficient resources to meet their commitments, which already fall well short of the amounts required to help most countries attain the Millennium Development Goals (MDGs) by 2015. Thus, our progress report on the MDGs confirms the diagnosis of last year's *AEO*; on recent trends, only six African countries – most of them in North Africa – are likely to meet the key target of halving the share of the population living on less than one dollar a day.

In this regard, the years 2005 and 2006 have seen the development of a series of new initiatives aiming at providing increased and more effective aid in the run up to 2015. The *Outlook* assesses these initiatives and reviews the significant framework agreements that were reached at the December 2005 WTO Hong Kong Ministerial Meeting in the Doha Round of multilateral trade talks. This holds the promise of reducing agricultural subsidies in developed countries and significantly lowering the trade barriers that hinder market access for African goods. Specifically, the framework agreements call for the elimination of export subsidies, in particular in the cotton sector, and the reduction of trade-distorting domestic support and substantial tariff reduction, as well as a specific timetable for their implementation. Outside the Doha Round, the lifting of quota restrictions on trade in textiles and clothing from the beginning of 2005 has presented a difficult challenge to textile-exporting countries in Africa (including North African countries, Mauritius and Madagascar), due to their vulnerability to competition from Asian countries, and, in particular, China.

With the recognition of its critical role in economic growth and poverty alleviation, the focus on promoting good governance has intensified in recent years. The NEPAD has played an important role here. Thus, the African Peer Review Mechanism is expected to provide a candid assessment of African countries and to foster progress in this governance. Ghana is the first country to complete such a Review. The *Outlook* notes that democracy has started to take root in a number of countries in the last decade, through, for example, substantial progress in the electoral process, while conflicts have started to subside. Corruption, however, continues to be prevalent in many countries and, despite progress in macroeconomic management and the regulatory environment, more needs to be done to ensure an environment conducive to private-sector development.

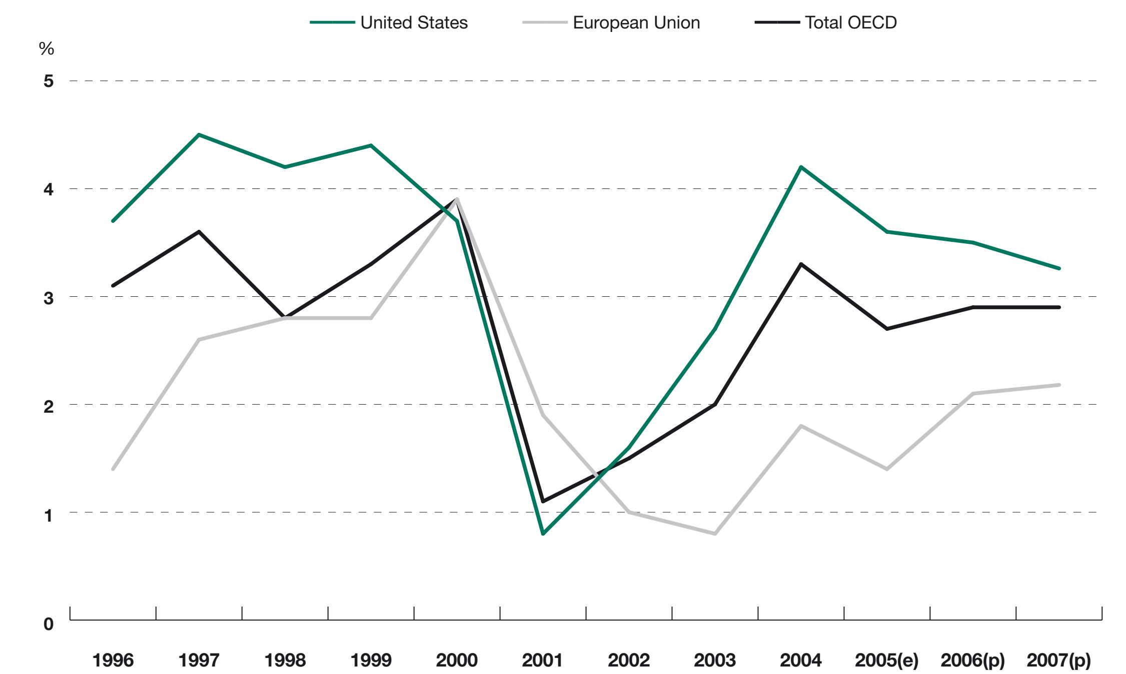
This year, the *AEO* special theme is the promotion and financing of transport infrastructure. Many problems plague African roads, railways, airports, ports, and air space, from improper planning and bad management to lack of safety and maintenance and inappropriate regulation. The result is that the poor state of infrastructure, the poor quality of the transport services provided, and their high cost to users all combine to leave many people, and especially the poorest of the poor, in a state of stranded mobility. Moreover, the potential benefits of Africa's insertion into the global economy are only minimally realised and major obstacles remain to weaving together states and provinces within a country and nations within a region. African governments and their development partners have increasingly recognised the importance of transport infrastructure in facilitating economic growth and achieving the MDGs. Over the past decade or so, many attempts have been made to plan transport needs more accurately and to facilitate greater private participation in transport investment and management. Attracting such involvement presents problems: identifying potential investors; raising financial resources; writing sound contracts; improving regulatory frameworks; and predicting revenue streams. There are limits to what can be achieved in this way, moreover, and both African government and the donor community will need to continue developing innovative approaches for raising additional public and private resources and to learn to use them more efficiently in order to provide more and better transport infrastructure to the peoples of Africa.

International Environment

Growth in the OECD Area

Growth in GDP remained robust in 2005, the fourth year of the current expansion in OECD countries, although it slowed somewhat, to 2.7 per cent, compared to 3.3 per cent in 2004 partly due to sharply higher oil prices – 41.5 per cent above their average in 2004. Prospects are for some strengthening of growth, to 2.9 per cent in both 2006 and 2007(Figure 1), with somewhat slower growth in the United States and Japan partially offset by somewhat faster growth in the euro area[1]. The expansion in Japan, led initially by exports, has spread to domestically oriented activity. Buoyant export growth, particularly in Germany, has supported some strengthening of overall demand in the euro zone although domestic demand has remained weak. In the United States and elsewhere GDP growth in the near term is expected to

Figure 1 - **Growth in OECD Countries**



Source: OECD.

1. OECD (2005), *OECD Economic Outlook, December.*

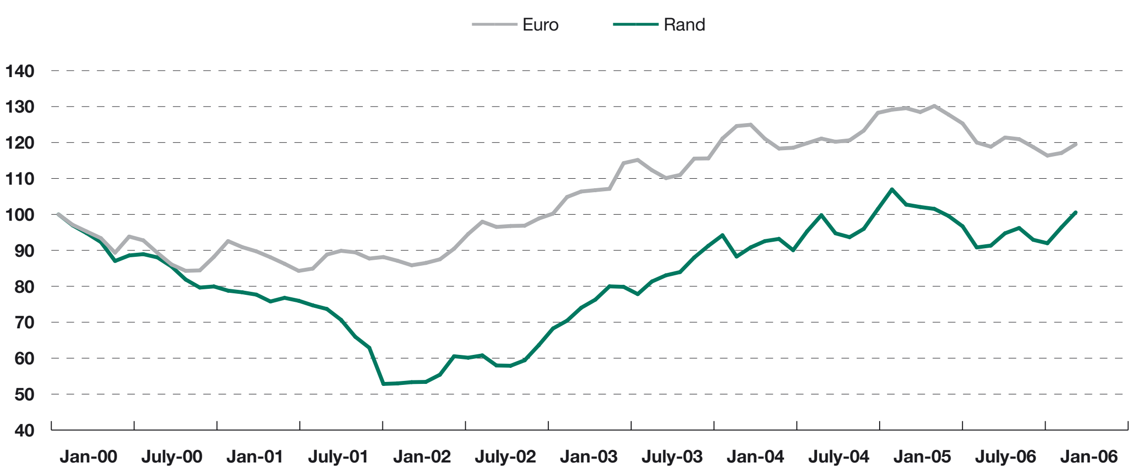
exceed or closely approach potential growth, thus eliminating the output gap and leading to an increase in fixed capital formation. Growth has continued to be underpinned by accommodative fiscal policies, low long-term interest rates, and a stable outlook for inflation. However, prospects for 2006 and 2007 are for some tightening of monetary policies and less expansive fiscal policy. Outside the OECD area growth has continued to by especially buoyant in Asia, led by continued rapid growth in China and India. World trade growth was a strong 7.3 per cent in 2005 and is expected to increase to slightly more than 9 per cent in both 2006 and 2007.

This buoyant growth in the OECD area and in Asia has helped sustain African economic activity in 2004 and 2005, led by growth in export volumes, which averaged about 9.5 per cent per year. Moreover since Africa sells about 50 per cent of its exports to the European Union, and only 15 per cent to the United States[2], the brighter outlook for Europe expected for 2006 and 2007 augurs well for sustaining demand for African exports during the next two years.

Exchange Rates

Concerns over the sustainability of flows needed to finance the US current account deficit persist. They already led to significant exchange rate adjustments, which strengthened the competitiveness of US exports *vis-à-vis* the euro area and Japan throughout 2004. Despite strengthening by about 12 per cent against the euro in 2005, the US dollar remains 36 per cent below its level at end-2001 (Figure 2). Changes against other currencies, however, have been more moderate; and, overall, exchange-rate adjustments have remained orderly.

Figure 2 - **Value of the Euro and the Rand against the Dollar** (base 100 in January 2000)



Source: www.x-rates.com.

The strengthening of the US dollar against the euro during 2005 led to a modest depreciation of the effective exchange rate in the Franc Zone, in the real effective exchange rates of the West African Economic and Monetary Union (WAEMU), and in that of the South African rand and those countries whose currencies are pegged to it. These developments partly reversed the sharp appreciation of these same currencies that had occurred in 2003 – 2004, strengthening the competitiveness of non-traditional exports.

Raw Material Prices

Strong world demand and supply shortages were responsible for commodity prices rebounding sharply during the global recovery. In nominal dollar terms, metals and minerals, and oil prices increased the most

2. IMF, Direction of Trade Statistics.

since 2000 (up about 71 and 91 per cent, respectively). In domestic currency terms, however, the impact of these price hikes was dampened somewhat for many countries because of the depreciation of the dollar over the same period.

The general rise in global commodity prices has had a positive impact on the trade balances of many African countries, although higher oil prices have hurt oil importers. The countries with the largest gains have generally been exporters of oil and metal ore. For most other countries, gains from higher-priced commodity exports have been roughly equivalent to losses from oil imports. However, a number of countries have faced net losses reflecting lower prices for some agricultural products – cocoa (down nearly 12 per cent between 2003 and 2005) and cotton (down about 14 per cent over the same period). The dependence of many countries on commodity market developments remains a key vulnerability over the medium term. In the immediate, careful management of the windfall gains from the increase in commodity prices is key to avoiding boom-bust cycles that can result from price volatility.

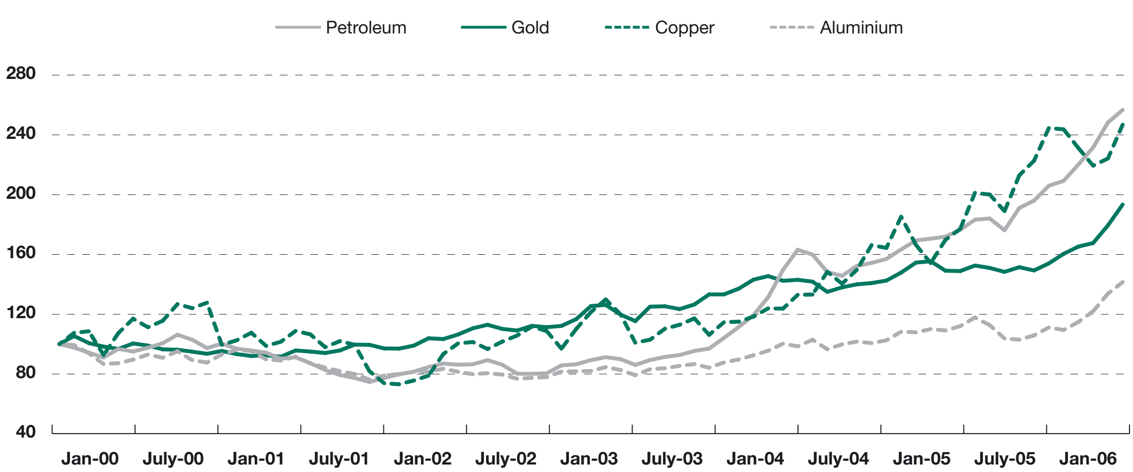
Oil

The rise in crude oil prices to record nominal highs has been accompanied by higher price volatility (Figure 3). This surge in prices, which was largely unanticipated, has reflected a number of factors, including: the level and growth in the global demand for oil as the global recovery has taken hold; the disappointing growth in oil production and the tensions in oil-exporting nations – particularly Iraq, Nigeria, Russia and Venezuela – and a confrontational stance with Iran; the low levels of spare oil production and refining capacity temporarily aggravated by hurricane-related damage in the Gulf of Mexico; and the low inventories of crude oil in the OECD countries. With excess capacity still very low, prices are likely to remain high, especially if the global expansion remains solid. The average crude oil price increased from $/barrel 37.7 in 2004 to $/barrel 54 in 2005 and is expected to remain high, at about $/barrel 56 in 2006, before falling back slightly to average about $/barrel 52 in 2007. High oil prices have slowed but not derailed the global expansion; however, oil price uncertainty will continue to dominate the risks surrounding economic activity in the near term.[3]

Metals

Metals prices continued to increase sharply by 26 per cent in 2005 following a 16 per cent increase in 2004, in large part because of China's high demand for metals (see Box 1 below on China and India impact on Africa). They are expected to decline slightly (by 4 per

Figure 3 - **Prices of Oil and Metals** (base 100 in January 2000)



Source: World Bank.

3. See: OECD (2005), *OECD Economic Outlook, December.*

Box 1 - China and India: What's in it for Africa?

The rapid integration of the massive labour forces of China and India - more than one billion people - into the world economy has produced a "super-cycle" – a decade-long rise in real commodity prices, driven by the urbanisation and industrialisation of a major country, and is exerting downward pressure on the relative prices of manufacturing goods.

There is no doubt that Africa – still largely connected to the world economy through raw material exports – is benefiting from the "super-cycle". China and (increasingly) India have contributed to dampen world inflation pressures, to lower global interest rates, to raise raw material prices and to improve Africa's terms of trade. China's and India's growing demand for commodities also brought about a significant redirection of African exports away from OECD markets, helping to diversify the destinations of Africa's exports. This process has encouraged new inflows of foreign direct investment, mostly in the extraction of raw materials, both from Asian investors and elsewhere. The Asian Giants FDI story is not a one-way street, however, as demonstrated by the growing presence of South African multinationals in China and India. At the same time, direct competition between Africa and the Asian businesses on local and third markets has remained limited to some specific sectors and countries (such as clothing, mostly in Northern and Southern Africa). Urban African consumers, meanwhile, have benefited from the higher purchasing power of their incomes thanks to lower prices for labour-intensive goods.

It remains to be seen whether Africa will be able to make the most of the unexpected bonanza produced by record proceeds of raw material wealth, diversify away from natural resources extraction and avoid heightened vulnerability to natural and market risks. Not only does actual competition matter, potential competition is also important. China's and India's competitiveness in labour-intensive industries may reduce the opportunities for African economies to diversify away from traditional exports. Lastly, trade redirection towards China and India might not result in much product diversification. The new trade flows have been concentrated in commodities, broadly similar to historical patterns of African exports to OECD countries.

To avoid remaining confined in the unpromising corner of vulnerable, capital-intensive, and high-risk dependence on raw materials with little local-labour content, Africa will have to manage the windfall gain generated by higher commodity prices carefully. Innovative policy tools must be used to reorient governments' and donors' attention in support of industries that are *complementary* to those that accompany economic growth in China and India. If Africa is to exploit China's and India's rising demand for soft commodities such as fresh fruits and vegetables and tropical beverages, investment, technical assistance and capacity building in agriculture and related rural infrastructure must be move up on donors' priority lists. Particular policy attention will be necessary to ensure that smallholders are able to participate collectively in new export markets. Vertical integration in resource-based industries may also have to be supported increasingly. Finally, China's and India's increasing competition may reorient donor attention to trade preference erosion and to improving the effectiveness of existing trade preference schemes targeted at Africa.

Source: Goldstein, A., N. Pinaud, H. Reisen and X. Chen. (2006), *China and India: What's in it for Africa?* OECD Development Centre Studies, Paris.

cent) in 2006 and by a further 13 per cent in 2007, but to remain higher than in 2004. The price of gold has escalated since mid-2001, triggered by the reduction of producer hedging – as interest rates lowered – and by international uncertainty; this benefited South Africa, the world's leading producer, and other African gold producers, such as Ghana and Mali – although the strength of the rand and the CFA franc dampened the impact of buoyant commodity prices in South Africa and Mali.

Prices of other metals also rose substantially in 2004 and 2005. Copper prices rose by 28 per cent in 2005 following a 61 per cent increase in 2004 as the market remained in deficit on strong demand and marginal growth in supply; since then, prices have been volatile but are expected to decline in 2006 and 2007 to a level about 25 per cent lower than in 2005. Gains in aluminium prices have been more modest over the last two years (30 per cent), because of the large expansion of primary aluminium capacity and exports in China. Zambia (for copper) and to a lesser extent Mozambique, Ghana, Cameroon and Guinea benefited from these increases.

Agricultural Products

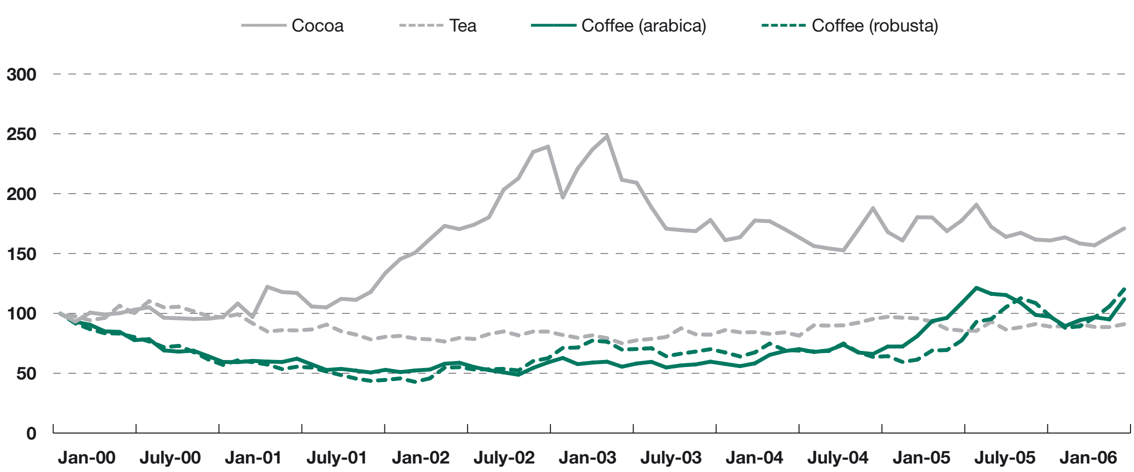
Prices of tropical commodities have been volatile and generally performed poorly (Figure 4). Cocoa prices reflected the uncertainties generated by the civil conflict in Côte d'Ivoire, the world's largest cocoa producer and exporter. Following record lows in the early 2000, prices recovered to reach new highs in early 2003, fell sharply during 2003 as a significant supply response occurred, and then stabilised in 2004 and 2005.

The prices of coffee, exported by many African countries, increased substantially in 2002; they held fairly steady (increased for the Arabica variety) in 2004 and then increased sharply in 2005 (by 41 and 43 per cent for Robusta and Arabica varieties, respectively), recovering the levels of early 2000. However, the fundamentals for coffee remain weak, with little growth expected in consumption while global stockpiles remain abundant.

Tea prices in 2005 were little changed compared with 2004, but are still about 12 per cent below their 2000 levels, and are expected to remain at about the same levels in 2006 and 2007. The outlook is not favourable, given the declining trend in consumption growth and the continued growth in output.

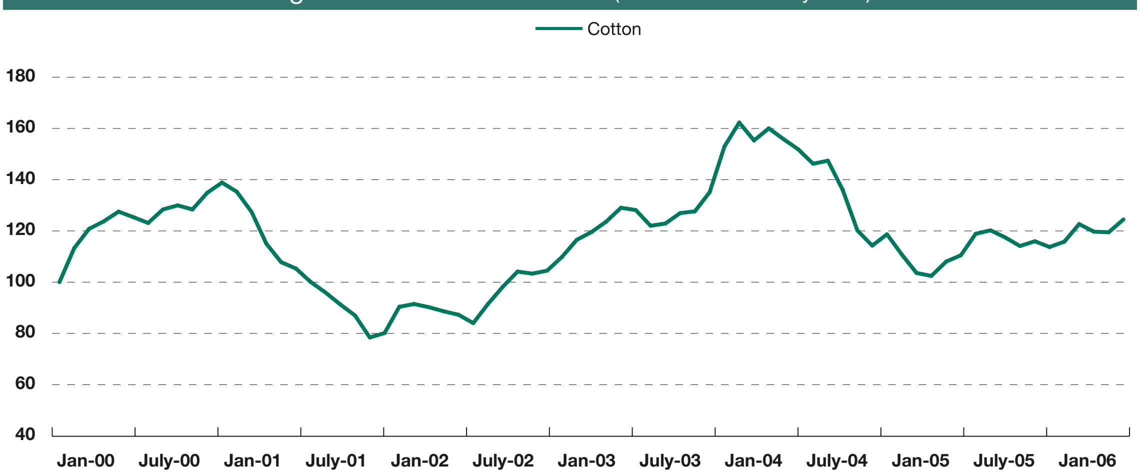
Cotton prices fell sharply in the course of 2004 (Figure 5), following the recovery from their trough in October 2002, with the result that average prices in 2004 were about 2 per cent lower than in 2003. They fell by a further 11 per cent in 2005, and are not expected to improve much in 2006 and 2007. This drop substantially lowered export earnings in countries like Mali, Benin, and Burkina Faso in 2005. The cotton price

Figure 4 - **Prices of Tropical Beverages** (base 100 in January 2000)



Source: World Bank.

Figure 5 - **Price of Cotton** (base 100 in January 2000)



Source: World Bank.

illustrates the problems encountered by some of the poorest sub-Saharan countries in the context of trade distortions. West and Central African countries produce low-cost, high-grade cotton, but face unattractive world prices, which have been dampened by the provision of substantial subsidies from developed countries in recent years. An additional burden for the cotton-producing countries in the CFA zone has been the appreciation of the euro against the US dollar since 2000.

The "cotton initiative" launched in September 2003 by four West African countries (Benin, Burkina Faso, Mali and Chad) to end cotton subsidies in WTO member countries was finally included in the WTO General Council decision reached in mid-2004 on the framework to proceed with agricultural negotiations. And at the WTO Ministerial Meeting in Hong Kong, further progress was made, including setting a timetable for its implementation (Box 2). In the meantime, there is a need to speed up the process of providing the necessary assistance to African producers until the removal of subsidies results in higher prices. In the present situation of low prices, distorted by subsidies, African production costs are above the world price,

Box 2 - Africa and the Doha Development Round after Hong Kong

The 6th WTO Ministerial Conference devoted considerable political attention to several development-specific issues of great interest to African countries. These include, inter alia, barriers to trade in agriculture, including cotton; erosion of trade preferences; the special needs of least developed countries (LDCs); the specific concerns of small, vulnerable economies; and an "Aid for Trade" programme. Although progress was made in Hong Kong and a timeframe agreed for presenting detailed negotiating positions, advancing the Doha Development Agenda will require intense effort by both developed and developing countries to bridge the remaining gaps in negotiating positions. The most salient features of interest to African countries in areas where provisional agreement was reached are the following:

- Agriculture: All forms of export subsidies will be eliminated at the end of 2013. A substantial part of this elimination will be realised by the end of the first half of the implementation period. This is to be accompanied by eliminating a range of implicit subsidies through reforming the disciplines on export credits, export credit guarantees or insurance programmes, exporting by state trading enterprises, and food aid. There will be three bands for reductions in domestic support, as defined by the Final Bound Total Aggregate Measure of Support (AMS). Relatively higher percentage cuts will be applied to products in the higher bands. Developing countries will be in the lowest of three bands. In addition, industrial countries in the lower two bands with high relative levels of domestic support will make an additional effort in AMS reduction. Moreover, substantial tariff cuts should be agreed to improve market access. Industrial countries will agree upon the extent of special treatment for «sensitive» products, taking into account all the elements involved. Developing countries will have the flexibility to self-designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food safety, livelihood security and rural development. They will also have the right to have recourse to a Special Safeguard Mechanism.
- Cotton: Industrial countries will eliminate all forms of export subsidies in 2006. They will give duty-and-quota-free access for cotton exports from LDCs beginning at the commencement of the implementation period. Distorting domestic subsidies for cotton production should be reduced more ambitiously than under whatever general formula is agreed within the agriculture negotiations, and should be implemented over a shorter period of time than generally applicable.
- Non-agricultural market access: The special needs and interests of developing countries will be taken into account, including less than full reciprocity in reduction commitments.
- Addressing the special needs of the LDCs: Industrial countries, and developing-countries declaring themselves in a position to do so, have agreed to implement duty-free and quota-free market access for at least 97 per cent of products originating from LDCs, defined at the tariff line level, by 2008 or by no later than the start of the implementation period. However, the devil is in the details. The 3 per cent reservation could account for some 330 tariff lines, and for some countries this could effectively deprive them of duty-free market access for all of their major exports.
- Aid for Trade: A programme will be established to help developing countries, in particular LDCs, build the supply-side capacity and trade-related infrastructure needed to benefit from increased trade opportunities.

Reaching international agreement on these matters will be supportive of accelerating economic growth in developing countries, but will not be sufficient. Complementary measures will be needed. In particular, developing countries, including in Africa, will benefit more from a successful conclusion of the Doha Development round of trade negotiations if they engage in reform and market opening themselves.

which threatens cotton production in countries where the sector is key – an estimated 12 million people are dependent on cotton for their livelihood in West Africa.

Official Development Assistance

Since the UN Conference on Financing for Development in Monterrey, Official Development Assistance (ODA) has continued to rise in real terms. According to the OECD's Development Assistance Committee (DAC), total ODA rose by 18 per cent in real terms, an average increase of just over 5 per cent per year from 2001-04. In 2004, aid volumes reached $79.5 billion. Yet the recent recovery in ODA is less impressive when measured as a share of DAC members' gross national income (GNI). The ODA/GNI ratio increased from 0.22 per cent in 2001 to 0.26 per cent in 2004, which remains short of previous averages (0.33 per cent achieved in 1980-92) and of the United Nations ODA target of 0.7 per cent[4].

Much of the increase has come from debt relief, including under the Heavily Indebted Poor Countries (HIPC) Initiative[5]. To date, debt reduction packages have been approved for 28 countries, 24 of them in Africa, providing $38.2 billion (net present value terms) in debt-service relief over time[6]. In addition to the HIPC Initiative and additional bilateral debt relief, 100 per cent debt relief is expected to be granted to all HIPC countries which reach their completion points by the IMF, the International Development Association (IDA) of the World Bank and the African Development Fund (AfDF)—in the framework of the Multilateral Debt Relief Initiative (MDRI), which emerged following the G8 summit of July 2005 (see Box 3). A major reduction in debt has also been agreed for Nigeria, Africa's most populous country.

Debt-reduction packages, notably the debt relief for Iraq and Nigeria of around $19 billion in 2005 and $11 billion in 2006, will be reflected as large increases in aid in 2005 and 2006 (see Figure 6). The expected spike in aid levels will also reflect a decision taken by donors in February 2005 to contribute $18 billion to the World Bank's IDA, in order to raise the annual level of its grants and net loan disbursements by at least 25 per cent. Further, major mobilisation of both official and private resources for relief and reconstruction has taken place in response to the Indian Ocean tsunami and other natural disasters, such as the Kashmir earthquake.

It should be noted, however, that this sharp rise of ODA above the trend level is likely to be short-term, since the determinant factors are likely to drop away (e.g. future debt deals are unlikely to match the scale of relief granted to Iraq and Nigeria).

If all the commitments made in 2005 to increase aid are met, including the pledge to double aid to Africa announced at the G8 summit in Gleneagles, ODA from DAC donors alone would rise by almost $50 billion in real terms between 2004 and 2010, to nearly $130 billion (at 2004 prices and exchange rates), or 0.36 per cent of DAC GNI[7].

Indeed, there are some encouraging signs - the EU, for example, is forecast to achieve 0.43 per cent in 2006 against its 0.39 per cent target. However, this pledge assumes that all EU DAC members achieve the agreed minimum level of 0.33 per cent of GNI by 2006, which will require large relative increases from some EU members (notably 125 per cent from Italy compared with 2004).

Assuming that all DAC commitments are met, the estimated figure for 2010 (0.36 per cent of GNI for DAC members as a whole) would only marginally exceed the levels of 1980-92 (0.33 per cent), and still falls short of the estimated financing requirements for countries to attain the MDGs by 2015.

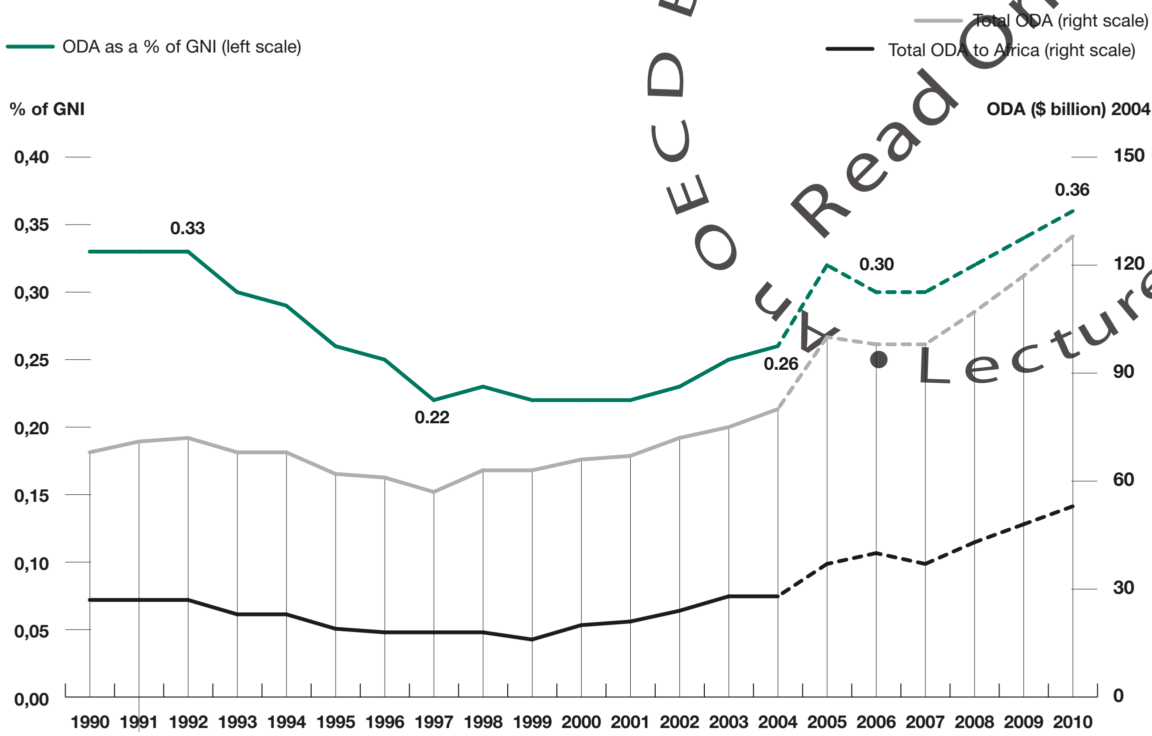
4. OECD (2005), DAC, *2005 Development Co-operation Report*, Paris.

5. The HIPC Initiative, started in 1996, is a comprehensive approach to debt reduction for heavily indebted poor countries pursuing IMF- and World Bank-supported adjustment and reform programmes.

6. IMF Fact sheet December 2005

7. OECD (2006), DAC, *2005 Development Co-operation Report,* Paris.

Figure 6 - **DAC Members' ODA: 1990-2004 and Simulations to 2006 and 2010, based on Commitments at Monterrey and Since**



Source: OECD/DAC statistics (2006), Draft Annex to Chapter III of the ECA/OECD/DAC "Mutual Review of Development Effectiveness in Africa in the context of NEPAD", Paris.

On the positive side, evidence suggests that additional sources of development finance from non-DAC members are becoming available to recipient countries over the next four years. For example, Korea has decided to increase its ODA to 0.10 per cent of its GNI by 2010, which implies more than doubling its aid to around $1 billion in that year. Other non-DAC OECD member countries such as Turkey, Mexico and several European countries have ambitious plans to scale up their aid by 2010. The non-DAC OECD members of the EU (the Czech Republic, Hungary, Poland, and Slovakia) and the other new EU members committed themselves to reach 0.17 per cent of GNI by 2010 and 0.33 per cent by 2015. Official financial flows from Middle East and OPEC countries elsewhere are also expected to increase, mainly in the form loans for project finance. China's announcement at the UN General Assembly Summit of the provision of $10 billion to improve infrastructure and promote co-operation between enterprises is particularly significant, although an unspecified proportion of this will be in the form of export credits rather than ODA[8].

Growth of Aid to Africa

Africa's share of total ODA, which had fallen to 36 per cent of the total by 1999, recovered to 46 per cent in 2003 and 2004[9]. This rising flow of ODA to Africa was driven largely by debt relief and emergency assistance, which reached 19 per cent and 11 per cent of total ODA, respectively, tripling their share of ODA from 1999-2000 to 2003-04. Emergency aid from DAC countries, the World Food Programme, European

8. OECD (2006), DAC, *2005 Development Co-operation Report,* Paris.

9. Based on region-allocable ODA only.

Commission and UNHCR has been channelled to relief and reconstruction in areas affected by natural disasters and famine, especially in Southern Africa, and in post-conflict areas, notably in the great lakes region and Angola. Early estimates suggest that emergency assistance also rose in 2005, reflecting interventions to counteract the food crisis in Niger and address other food security problems in Southern Africa in October 2005.

Among the 14 African countries that have reached their HIPC completion points, Zambia, Ghana, Tanzania, Mozambique and Ethiopia have seen their debt reduced by two thirds. Among the 10 countries that have achieved the enhanced decision point, the Democratic Republic of Congo alone accounts for 60 per cent of total relief (more than $3 billion per year over the period 2002-04). Debt relief has been channelled to poverty reduction expenditures, which

Box 3 - The post-cancellation debt of the countries of sub-Saharan Africa and the prospect of sustainability

Results of the HIPC Initiative

The HIPC Initiative, begun in 1996, aims to reduce the external debt burden of the poorest and most indebted countries to a sustainable level. In 2006, 38 countries are eligible for such relief, including 32 in sub-Saharan Africa where 14 of them have reached completion point (Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia), 10 have reached decision point (Burundi, Cameroon, Chad, Democratic Republic of Congo, Gambia, Guinea, Guinea-Bissau, Malawi, São Tomé and Principe and Sierra Leone) and eight are at pre-decision point (Central African Republic, Comoros, Côte d'Ivoire, Democratic Republic of Congo, Liberia, Somalia, Sudan and Togo).

The cost to creditors is $38.2 billion (at 2004 NPV or $56.4 billion in nominal terms) for the 28 countries that have reached decision point.

The Multilateral Debt Relief Initiative (MDRI)

The MDRI was proposed by the G8 countries in June 2005 to cancel all the multilateral debt held by the World Bank's International Development Association (IDA), the IMF and the African Development Bank's African Development Fund (ADF), incurred before 1 January 2005 with the IMF and the ADF and before 1 January 2004 for the IDA. This is an average 73 pour cent of the debt of the 14 post-HIPC African countries. There are 19 countries currently eligible for the MDRI:

- Those HIPC countries that have reached completion point, kept up a satisfactory economic performance for six months and implemented a poverty-reduction strategy. Of the 18 post-HIPC countries 17 are thus eligible. Only Mauritania has failed to obtain relief because of deteriorating macroeconomic performance and management of government finances since reaching completion point in June 2002.
- Those non-HIPC countries whose per capita income is below $380 with the same economic performance criteria as for the HIPC countries. Cambodia and Tajikistan are eligible.

The next step will be for the HIPC countries that have not reached completion point (18 of them African) to qualify for the MDRI under the same performance criteria.

The total cost of the MDRI will be about $48.6 million in nominal terms ($5 million for the IMF, $34.5 million for the IDA and $9 million for the ADF), including $43 million for African countries. The five biggest beneficiaries are Ghana ($4.4 million), Tanzania ($4.4 million), Uganda ($3.8 million), Ethiopia ($3.7 million) and Zambia ($3 million). These are substantial cancellations and range from 20 per cent of Burkina Faso's GDP to 49 per cent of Madagascar's.

Impact on public debt sustainability

The sustainable debt thresholds for low-income countries are defined in the Debt Sustainability Framework, which divides countries into four groups according to whether their political, economic and institutional performances (judged in Country Policy and Institutional Assessments – CPIA) are weak, medium or strong. The long-term sustainability analysis also tests sustainability against external shocks that might reduce export earnings, such as changing raw material prices.

The level of default risk is used to decide the proportion of loans and grants as defined by IDA-14. Low-risk countries will only be eligible for loans, medium-risk ones can have half loans and half grants and high-risk countries can only have grants. Before MDRI, three countries were at risk – Madagascar, Niger and Rwanda. After MDRI, only Niger is still at risk, though only slightly. So the temptation is great for MDRI beneficiary countries to get into debt again (especially in trying to achieve the MDGs) with loans, which are more easily obtained than grants. This new situation fuels the loans vs. grants argument among international funding sources as "unco-operative" funders grow more powerful in Africa.

Source: Hélène Djoufelkit-Cottenet, Economist, département de la recherche, Agence Française de Développement.

increased from 5.5 per cent of GDP in HIPC countries in 1999 to 8.7 per cent in 2005[10].

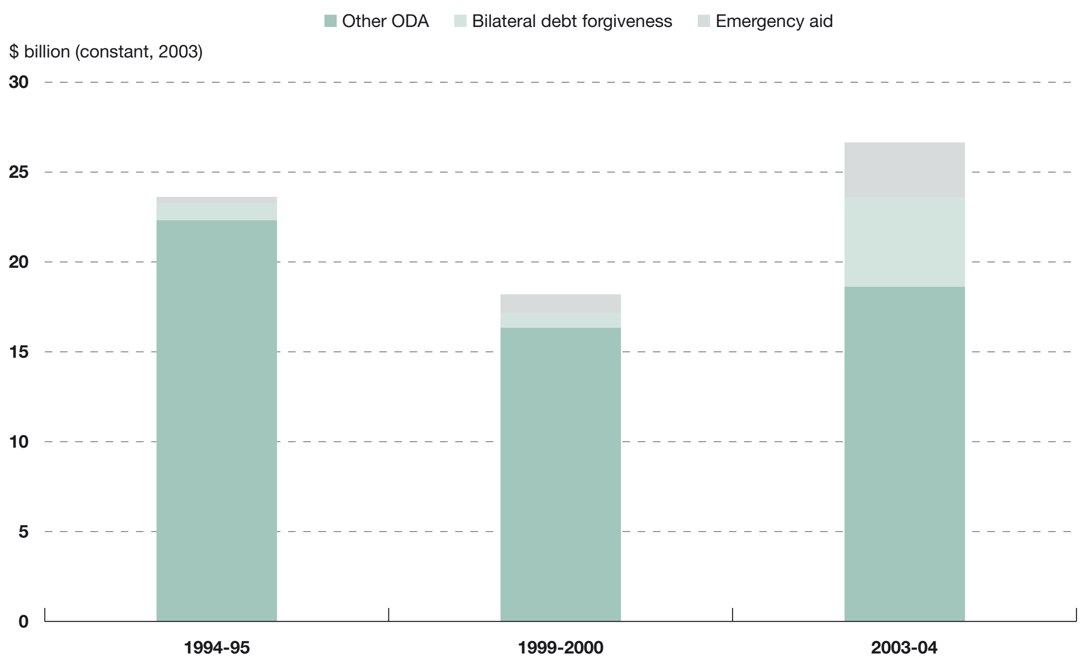
The HIPC initiatives have contributed to the overall shift in the sector allocation of ODA towards social sectors (mostly education and health) and governance activities as intended. An additional challenge is to ensure that money is redirected to social priorities in fragile states. For example, in Rwanda and Ethiopia, pressing reconstruction needs are forcing large new loans to be contracted while old debt is simultaneously being retired. Difficult problems also remain in HIPC countries that have not yet been able to reach their decision points. Some of these countries are plagued by uneven policy records or poor governance.

Finally, even after debt relief under the HIPC Initiative is fully implemented (See Box 3), maintaining a sustainable level of debt service while seeking the additional financing needed to make progress towards the MDGs will be a challenging task. For example, some countries might be tempted to use their improved credit-worthiness to access international capital markets or export credits and loans with low levels of conditionality, including from non-DAC donors, risking a return to high and unsustainable debt levels.

As debt forgiveness and emergency aid rose between 1999-2000 and 2003-04, the share of ODA in the forms of loans and grants for programmes and projects decreased. It remains to be seen whether the absolute amount of this core development aid continues to rise once the temporary surge in debt relief and emergency aid has passed.

Africa is the main ODA recipient region for 17 of the 22 DAC donors. The main bilateral donors to Africa are EU countries – in particular France – and the United States. Top multilateral donors are the African Development Bank, the European Commission and the World Bank. Annual aid in 2004 amounted to $34 per head in Africa, about two and a half times the aid per head received by the total developing world population. While aid per capita for Africa has increased

Figure 7 - Net Official Development Assistance to Africa (all donors, constant 2003 $ billion)



Source: OECD/DAC statistics (2006), Draft Annex to chapter III of the ECA/OECD/DAC "Mutual Review of Development Effectiveness in Africa in the context of NEPAD", Paris.

10. Département de la recherché, Agence Française de Développement

since 2000 – by 6.5 per cent from 2003 – it has fallen substantially from its real 1990 level, by nearly $20.

Regarding the pattern of aid flows, Egypt accounted for 49 per cent of flows to North Africa, while Ethiopia, Democratic Republic of Congo, Tanzania, Ghana, Madagascar, and Mozambique accounted for 36 per cent of total ODA to the 50 countries in sub-Saharan countries in 2004. In terms of aid distribution by sector, social sectors and governance received about 30 per cent of ODA, and debt relief another 30 per cent, with peaks of 52 per cent and 40 per cent of total ODA for Ghana and Democratic Republic of Congo respectively.

The NEPAD process has proved instrumental in making Africa the focus of development assistance flows. As mentioned earlier, the Monterrey and subsequent announcements by the G8 countries pledged that 50 per cent of the total increase in ODA expected for 2006 should be devoted to African countries. Despite this encouraging trend, the MDGs remain underfinanced and most of Sub-Saharan Africa is far from reaching most of the eight goals.

Progress in making aid more effective

Important events shaped the international development policy agenda in 2005 when a review of progress on the MDGs began, notably with the release of the Millennium Project Report[11] in January 2005. The Gleneagles G8 summit in July and the UN World Summit in September resulted in significant pledges for further debt relief and increased aid flows.

In addition to the commitment by donors to increase ODA volumes, steps have been taken by the international community and African governments to improve the quality of aid. The 2005 Paris Declaration on Aid Effectiveness renewed pledges made in the Rome Declaration on Harmonisation of 2003 to reduce the transactions costs implicit in aid delivery, encourage more harmonised, joint efforts among bilateral and multilateral donors, and enhance aid effectiveness through results-based approaches.

The aid effectiveness agenda stresses ownership by recipient countries, alignment of external aid to local priorities and local delivery channels when these meet adequate standards, harmonisation and simplification of donor procedures, a stronger focus on achieving real results by both recipient countries and donors, and greater mutual accountability for those results[12]. A set of indicators has been established to measure progress in this regard.

Recipient countries must take the lead in working out a country strategy with donors, with a clear statement of government preferences and priorities, a set of reciprocal commitments and machinery for implementation and monitoring[13]. Turning commitments into reality will require a strong effort by donor countries to resolve their co-ordination problems, improve allocation decisions to avoid the problems of donor darlings and orphans, and improve the predictability of aid disbursements. Currently, only a minority of bilateral donors provide prospective aid disbursements.

Many donors now believe that aid is more effective in countries with better policies and better institutional settings, and so have concentrated aid on a few good performers. In these countries, donors have begun simplifying procedures and practices and adopting common arrangements for sector-wide approaches and budget support, resulting in greater reliance on national systems and improved donor co-ordination. These initiatives have begun to bear fruit in some countries, notably in Mozambique and Tanzania, on the basis of increased mutual trust and accountability.

However, these trends have been accompanied by a concern about under-allocation to fragile states. Donors must adapt aid effectiveness concepts to difficult country environments, including their capacity to

11. UN Millennium Project (2005), *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, New York.

12. OECD (2006), DAC, *2005 Development Co-operation Report*, Paris

13. Castel-Branco C. N., Gerster R. Killick, T.(2005), *Perfect Partners? The Performance of Programme Aid Partners in Mozambique*, 2004.

absorb aid. This is of particular importance for many fragile African countries, where governance problems threaten the effective use of aid. One way of alleviating capacity constraints could be to encourage the provision of aid through non-state actors[14]. In addition, donors should improve the predictability of aid disbursement. Volatility in aid flows deeply compromises the ability of African governments to plan future public expenditures – and to undertake the strategic incremental investments required to meet long-term development objectives – and while most recipients experience year-to-year ODA variations of 10 to 20 per cent, the figure can rise to 50 per cent or more for recipients suffering from conflict.

Increased attention should also be focused on how aid can complement natural resource revenues. In this respect, programme aid, budgetary support and technical assistance could be more closely aligned with government efforts to manage natural resource revenue volatility, through, for instance, state stabilisation and long-term savings funds. In poorly governed countries, which do not receive budget support, donors could promote natural resource governance, strengthening checks and balances by fostering accountability of domestic institutions (e.g. through effective auditing, parliamentary scrutiny and media independence). Important actions could also be taken by donors in support of governments formulating and implementing natural resource revenue laws.[15]

Foreign Direct Investment

After a downturn in 2002, FDI flows to Africa recovered in 2003 (+ 39 per cent) and remained relatively stable in 2004 ($18 billion)[16]. Still, Africa's share in world FDI inflows remained small at 3 per cent. High prices for minerals such as copper, diamonds, gold and platinum, and particularly for oil, along with the resulting improved profitability of investment in natural resources encouraged foreign investment in the region. Inflows rose in 40 out of the 53 countries in Africa,

Box 4 - The NEPAD-OECD Africa Investment Initiative

In many African countries, investment rates are low and inflows of international investment are very limited. Without higher investment, GDP growth in most African countries will be insufficient to meet the UN Millennium Development Goals.

The NEPAD-OECD Africa Investment Initiative, launched in Johannesburg in November 2003, aims to mobilise private investment in sub-Saharan Africa by supporting these countries' own efforts to create an environment that is attractive to domestic and foreign investors and that enhances the benefits of investment to society.

Many African countries have already made progress in improving the investment environment, but more needs to be done. The major challenges include establishing a level playing field for all investors; enhancing transparency and procedural fairness in investment regulations; ensuring public sector and market integrity; facilitating regional integration and private participation in infrastructure; and building policy implementation capacities.

The NEPAD-OECD Initiative supports this reform agenda. It draws on the respective strengths of the two organisations as catalysts and facilitators of change, through its forums for international policy dialogue, based on a partnership approach to peer learning and supported by the OECD's multilaterally-backed policy tools and benchmarks. These tools, such as the Policy Framework for Investment, are adaptable to particular country circumstances and can serve as reference points for African countries interested in developing their own national dialogues, building constituencies for policy reforms.

Source: www.oecd.org/daf/investment/development for further information.

14. McGillivray M. (2006) Aid Allocation and Fragile States, Discussion Paper No. 2006/01 UNU/WIDER,Helsinki.
15. Warner M. and Alexander K. (2005) *Does the Sustained Global Demand for Oil, Gas and Minerals mean that Africa can now fund its Own MDG Financing Gap?* ODI Briefing Note 6, London.
16. UNCTAD (2005a), *World Investment Report*, Geneva, and UNCTAD (2005b), *Global Investment Prospects Assessment 2005-2008*, Geneva.

though they fell in 13, including in some of the region's top FDI recipients such as Angola, Morocco and Nigeria. Cross-border mergers and acquisitions (M&As) in the mining industry increased to more than three times their 2003 value. The five top home countries of FDI for Africa in 2004 were France, the Netherlands, South Africa, the United Kingdom and the United States, together accounting for well over half of the flows to the region.

Continued high demand for commodities, a more stable policy environment and increasing participation in infrastructure networks by African multinational corporations (MNCs) boosted FDI in 2005. In the short run, expectations for FDI inflows to Africa remain fairly positive, although investment promotion agencies are more optimistic than foreign MNCs. Both experts and MNCs believe that North African countries have greater potential to attract FDI than those in sub-Saharan Africa. South Africa and China were the most frequently cited as potential sources of FDI. In recent years, Chinese MNCs have expanded their resource-seeking and manufacturing activities on the continent, and Indian firms have begun to invest in IT-related services.

A relatively new phenomenon is the increase in FDI outflows (as opposed to portfolio flows and capital flights, that have long been worryingly high) from African countries, which more than doubled in 2004. With the purchase of Italy's second-largest telecom operator in 2005, Orascom of Egypt joined the list of African MNEs, hitherto largely limited to South Africa.

Macroeconomic Performances in Africa

Economic Growth

Africa as a whole exhibited real GDP growth of 4.9 per cent in 2005 – well above the long-term trend for the third consecutive year – and GDP per capita grew by nearly 3 per cent. The main factors supporting this growth performance were strong external demand for oil and non-oil minerals, increased investment in these sectors, and recovery from drought in a few countries. The continuation of sound macroeconomic polices in most of the countries in the continent has also increased business confidence leading to a pickup in private investment generally. It is noteworthy that for about two-thirds of the 30 countries monitored individually by the *AEO*, gross fixed capital formation as a percentage of GDP in 2005 was substantially higher than at any time in the past seven years.

Growth also appears set to accelerate somewhat on average in 2006 and 2007, notwithstanding the recent softening of commodity prices most of which are expected to weaken further in the course of 2006 and 2007. However, this continent-wide average masks considerable differences between oil-exporting and other African countries, groupings that face very different challenges. The challenge for the former and for some non-oil mineral exporters is to ensure that a large proportion of the proceeds from the minerals

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

Region	1997-2003	2004	2005(e)	2006(p)	2007(p)
Central Africa	4.2	10.5	4.8	5.0	3.6
East Africa	3.5	7.0	5.6	5.3	5.6
North Africa	4.4	4.7	4.8	6.3	5.6
Southern Africa	2.8	4.6	5.0	6.0	5.7
West Africa	3.8	4.9	4.4	5.3	5.5
Total	**3.7**	**5.3**	**4.9**	**5.8**	**5.5**
Memorandum items:					
Oil-exporting countries	4.7	6.0	5.5	6.9	6.3
Non oil-exporting countries	2.9	4.7	4.4	4.9	4.8

Note: Due to lack of data, these aggregates do not include Liberia and Somalia.
Source: Authors' (e) estimates; (p) projection.

sector are invested in infrastructure and human capital development to support their medium- and long-term needs for diversification. For many of the others, especially in the second half of 2006 and in 2007, it will be to contain inflationary pressures now building up as a result of the oil price increases of 2005, and to finance or contain the expected increases in their trade deficits.

As in the previous two years, GDP growth was particularly strong in oil-exporting countries, at 5.5 per cent in 2005 (6 per cent in 2004), largely due to the increase in oil prices and, in some countries, increases in production as well. However, the growth differential between these and non-oil-exporting countries remains large with average GDP growth in the latter of 4.4 per cent in 2005 (4.7 per cent in 2004).

This generally strong GDP growth performance is expected to strengthen in 2006, when the average real GDP growth rate for the continent as a whole is expected to be 5.8 per cent, with oil-exporting and non-oil-exporting countries exhibiting real GDP growth of 6.9 and 4.9 per cent, respectively. The projections for 2007 are for slightly lower growth for both groups than in 2006.

These forecasts are based on a number of plausible but somewhat optimistic assumptions, suggesting that they are subject to significant downside risk. Apart from assuming continued moderate growth in the global economy, they also assume that oil prices decline gradually to $56 and $52 per barrel in 2006 and 2007; that the droughts currently affecting a number of countries in East and Southern Africa will have only limited impacts in 2006; that growing conditions will be favourable in 2007; that effects on oil output of the conflict in the Nigeria delta region will be moderate in the course of 2006; that no new regional conflicts having significant macroeconomic impacts emerge; and that the worsening trade balances forecast for many of the non-oil exporting countries will be fully financed. In this respect the implementation of debt relief agreements for a number of the HIPC countries beginning in 2006 will be particularly helpful.

North Africa

Real GDP growth in North African countries averaged 4.8 per cent in 2005, about the same as in 2004. It is expected to accelerate considerably in 2006 to 6.3 per cent, before levelling off at 5.6 per cent in 2007. The high growth rates projected for 2006 are largely due to exceptionally high growth rates projected for Mauritania (26.9 per cent) and Sudan (13.4 per cent) mainly due to increases in oil and gas production, as well as strong growth in Morocco (5.3 per cent) from a recovery of agricultural output with the ending of the drought. The 2006 growth rates in the other North African countries (Algeria, Egypt, Libya, and Tunisia) are projected to be about the same as in 2005 sustained by high prices for oil and gas, and strong growth in tourism.

West Africa

Economic growth in the countries of West Africa was 4.4 per cent in 2005, substantially less than in 2004, but is projected to accelerate to 5.3 per cent in 2006 and to 5.5 per cent in 2007. In the West African Economic and Monetary Union (WAEMU), consisting of Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, economic performance continued to be negatively affected by the continued political turmoil in Côte d'Ivoire – the largest economy within WAEMU. Senegal, however, experienced strong growth in agriculture, especially production of groundnuts, and in phosphate-based chemicals. Weighing on the average GDP growth rate in the WAEMU in 2005 was the slowdown in economic growth in Guinea-Bissau from 4.3 per cent in 2004 to 2.3 per cent in 2005. The major positive development in the WAEMU was the recovery in agricultural production in several of them following the drought in 2004/05 season. In addition to an increase in agricultural output of the October 2005 harvest, Mali benefited from high gold prices, with the result that GDP growth accelerated from 2.2 per cent real GDP growth in 2004 to 5.4 per cent in 2005.

Within the five non-WAEMU members (The Gambia, Ghana, Guinea, Nigeria and Sierra Leone), Nigeria – by far the largest economy in West Africa – exhibited GDP growth of only 4.4 per cent in 2005, only half the average rate of growth in the preceding two years. Projections for 2006 and 2007 indicate an acceleration of Nigeria's growth rates to 5.6 per cent and 6 per cent, respectively, mainly due to the recent increase in oil prices. Guinea's growth performance continued to be relatively poor in 2005 (3 per cent), while Sierra Leone's and Ghana's performance continued to be relatively strong in 2005 (7.5 per cent and 5.9 per cent, respectively) with particularly good performance in cocoa production and processing.

Central Africa

Average GDP growth in Central Africa slowed to 4.8 per cent in 2005. Projections indicate a slight increase in real growth to 5 per cent in 2006 and considerably lower growth (3.6 per cent) in 2007. This is due mainly to an end of the rapid expansion of oil production in Chad and Equatorial Guinea. Thus, the trends among Central Africa's ten countries are very different, with the Central African Republic, Rwanda and São Tomé and Principe showing clear upward trends, while Chad and the Republic of Congo show clear downward trends, at least until 2007. Growth is projected to remain broadly at 2005 levels for Burundi (5 per cent), the Democratic Republic of Congo (6.2 per cent) due mainly to donor-supported reconstruction efforts, and Gabon (2.6 per cent). The projections for Cameroon and Equatorial Guinea show some strengthening of growth for 2006, followed by some weakening in 2007.

East Africa

Economic growth in East Africa averaged 5.6 per cent in 2005, and is projected to be about the same in 2006 and 2007. Ethiopia, Tanzania, and Uganda continue to be the highest growing countries within East Africa, growing at 6.8 per cent, 6.9 per cent, and 5.8 per cent, respectively. All three countries are also projected to broadly maintain these high growth rates in 2006 and 2007, exhibiting broad-based growth, led in some cases (Uganda) by the agricultural sector. However, these forecasts are subject to considerable uncertainties due to the unstable political situation in some countries, and a worsening drought in others. The Comoros, Djibouti, Kenya, Madagascar and Mauritius, which have recently been exhibiting slow growth, are expected to experience an acceleration of GDP growth in 2006 and 2007, reaching about 5.5 per cent on average in the latter year. The growth prospects of Mauritius and Madagascar continue to be negatively affected by the increased competition from Chinese, Indian and Bangladeshi textile producers and the end of the Multi-Fibre Agreement. Eritrea is projected to hover around its current dismal growth performances of close to zero growth, while in the Seychelles GDP is expected to contract.

Southern Africa

Economic growth increased in Southern Africa from 4.6 per cent in 2004 to 5 per cent in 2005, reflecting rapidly increasing output from new oil fields in Angola, Mozambique due especially to a number of mega-projects in the mining sector, and South Africa where growth – at 5 per cent, its highest since the end of Apartheid - has been broad-based and mainly driven by domestic demand. In all other Southern African countries, growth rates declined, especially in Botswana, Lesotho, Malawi and Namibia. Except in Malawi, none of these four countries is expected to do much better in 2006 or 2007. In Zimbabwe, economic activity continued to decline in 2005, contracting by about 7 per cent. The projections for South Africa indicate that GDP growth should remain robust at about 4.8 per cent and 4.7 per cent in 2006 and 2007, respectively, marking an important break from the historical sluggish growth rates experienced over the past ten years. Overall, the average growth rate for Southern Africa is projected to increase from 5 per cent in 2005 to 6 per cent in 2006, reflecting the projected near doubling of Angola's growth rate from 15.6 per cent in 2005 to 26.4 per cent in 2006 (largely due to rising oil sector activity in new oil fields, and to a lesser extent by increased diamond mining).

Inflation

Following the historical low inflation rate of 7.5 per cent in 2004, inflation in Africa increased slightly to

7.9 per cent in 2005, largely due to the impact of increasing energy prices (although partially offset by lower prices for imports of manufactures), and by unfavourable weather conditions, especially in Southern and West Africa. Though low worldwide inflation still benefited countries with pegged exchange rates (such as CFA franc countries), this was far less the case in 2005 than in 2004 as the inflation differential between some CFA countries and the Euro region increased considerably. Furthermore, while there were only three countries (Angola, Eritrea, and Zimbabwe) that experienced inflation rates above 20 per cent in 2004, the number increased in 2005 to four countries (Angola, DRC, Guinea-Bissau and Zimbabwe). For most countries the forecasts assume that the monetary authorities will be successful in resisting the recent increase in inflationary pressure. If they succeed, the average inflation rate for the continent as a whole is expected to decrease slowly to 7.3 per cent in 2006 and 6.5 per cent in 2007.

Table 2 - **Weighted Mean CPI Inflation of African Regions**

Region	1997-2003	2004	2005(e)	2006(p)	2007(p)
Central Africa	37.9	1.5	5.3	3.2	2.8
East Africa	5.7	8.4	7.6	6.0	5.5
North Africa	3.2	4.3	5.2	4.7	4.1
Southern Africa	18.1	10.7	9.2	11.5	10.4
West Africa	8.8	9.8	12.6	6.1	5.6
Total	**10.2**	**7.5**	**7.9**	**7.3**	**6.6**
Memorandum items:					
Oil-exporting countries	7.8	8.1	8.8	6.7	6.0
Non oil-exporting countries	12.6	6.9	7.1	7.9	7.1

Note: Owing to lack of data, these aggregates do not include Liberia and Somalia.
Source: Authors' estimates (e); projections (p).

North Africa

Inflation increased slightly in North Africa from 4.3 per cent in 2004 to 5.2 per cent in 2005, largely due to inflation pressures gaining momentum in Algeria, Egypt, and Mauritania. Inflation decreased considerably in Tunisia (from 3.6 per cent in 2004 to 2.1 per cent in 2005) and to a lesser degree in Sudan (from 8.4 per cent in 2004 to 7.5 per cent in 2005). The average rate of inflation in North Africa is projected to decrease slightly in both 2006 and 2007, largely due to expectations that both Egypt and Mauritania will succeed in bringing their inflation rates down to historical levels.

West Africa

The average rate of inflation in West Africa increased to 12.6 per cent in 2005 from an already high rate of 9.8 per cent in 2004. Increases in the prices of both food, reflecting the impact of drought which provoked a regional food crisis, and fuel in many WAEMU countries led to an increase in their average inflation rate from about 1 per cent in 2004 to above 4 per cent in 2005, exceeding the BCEAO convergence target by one percentage point. Nevertheless, the WAEMU countries, whose currencies are pegged to the Euro, still have a far lower average inflation rate than the member countries of the West African Monetary Zone (WAMZ),[17] each of which has inflation rates of at least 5 per cent. In Guinea, inflation rates increased from 17.5 per cent in 2004 to 26.3 per cent in 2005. The rate of inflation in Nigeria increased from 15 per cent in 2004 to 16.4 per cent in 2005 and in Ghana inflation remained high. Consequently, the targeted July 2005 launch date for a new common currency for the five countries of the WAMZ was missed. The only two countries where inflation rates moderated significantly from 2004 to 2005 were The Gambia and Sierra Leone. Projections for 2006 show large decreases in inflation rates, especially in Guinea and Nigeria.

17. Nigeria, Ghana, Sierra Leone, Guinea and Gambia.

Central Africa

The average rate of inflation increased in Central Africa to 5.3 per cent in 2005 from a low 1.5 per cent in 2004, largely due to significant increases in three countries: Burundi (from 8 per cent in 2004 to 16.3 per cent in 2005), DRC (from 4 per cent in 2004 to 22.7 per cent in 2005), and Chad (from -5.3 per cent in 2004 to 9.5 per cent in 2005). In Rwanda inflation dropped from 12 per cent in 2004 to 7.6 per cent in 2005 as weather conditions normalised; and inflation rates increased only marginally in the remaining Central African countries (Cameroon, the Central African Republic, the Republic of Congo, Equatorial Guinea, Gabon and São Tomé and Principe). The projections for 2006 and 2007 indicate that inflation will once again decrease in Central Africa close to the convergence target of 3 per cent, largely due to a return to single-digit inflation rates in all countries except São Tomé and Principe.

East Africa

Except for Madagascar, Mauritius and Uganda, inflation in each of the other countries of East Africa decreased from 2004 to 2005. As a result, the average rate of inflation in East Africa decreased to 7.6 per cent in 2005 from 8.4 per cent in 2004. In Madagascar, where inflation surged from -1.7 per cent in 2003 to 13.4 per cent in 2004, following the cyclones that hit the island in early 2004, inflation increased further to 18.3 per cent in 2005 due to increases in both food and fuel prices. Madagascar's inflation rate is projected to fall below 10 per cent in 2006, on the assumption of a normal rice harvest. In Uganda, inflation increased from 5 per cent in 2003/04 to 8.2 per cent in 2004/05, largely due to drought-related increases in food prices,[18] while Mauritius experienced only a marginal increase of 0.4 percentage points from 2004 to 2005. The outlook in East Africa for 2006 and 2007 is for gradual reductions in inflation rates in every country, except for Mauritius where inflation is expected to remain low. Thus, the average rate of inflation in East Africa is expected to gradually fall to 6 per cent and 5.5 per cent in 2006 and 2007, respectively.

Southern Africa

Southern Africa's experience was mixed in 2005, with five countries experiencing higher inflation rates and five countries experiencing lower inflation rates. Reflecting the relative sharp decreases of inflation rates in Angola (which thanks to a less expansive fiscal policy, together with currency appreciation, declined from 43 per cent in 2004 to an estimated 22 per cent in 2005) and Zimbabwe (which remained still near rates associated with hyperinflation), the average inflation rate in Southern Africa decreased from 10.7 per cent in 2004 to 9.2 per cent in 2005. However, with the 2005-07 inflation rates projected to hover around 200 per cent in Zimbabwe and around 20 per cent in Angola, both countries still face risks of sharply accelerating inflation rates. In Malawi and Zambia, where inflation rated increased to nearly 20 per cent in 2005, inflation is expected to return to single-digit levels in 2007, assuming favourable weather conditions. In the other Southern African countries (Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland) inflation has been close to 5 per cent and is projected to remain at about the same level in 2006 and 2007.

Public Finances

In 2005 the overall fiscal balance (including grants) of the group of oil-exporting countries exhibited a surplus equivalent to 6.4 per cent of GDP due mainly to higher oil prices but also to increases in oil production. The group of non-oil-exporting countries reduced its overall deficit slightly to the equivalent of 2.4 per cent of GDP in 2005 from 2.6 per cent in 2004. The low deficit of the non-oil importing countries reflects good macroeconomic management and a higher level of grants, including a portion provided in the form of debt relief. On the one hand, projections for 2006 show a further slight improvement for the group of oil-

18. There was a limited pass-through of the recent world oil price increases to Uganda's domestic pump prices, reflected by the strong appreciation of the shilling against the US dollar and lower mark-ups due to increased domestic competition in the distribution of petroleum.

Table 3 - Average Budget Balance to GDP Ratio

Region	1997-2003	2004	2005(e)	2006(p)	2007(p)
Central Africa	-0.7	1.7	6.0	5.7	5.2
East Africa	-3.2	-2.7	-3.4	-3.6	-3.3
North Africa	-1.6	-0.9	3.2	3.9	3.4
Southern Africa	-2.9	-1.8	-0.8	-0.6	-0.5
West Africa	-2.5	3.1	6.6	6.3	4.2
Total	**-2.2**	**-0.5**	**2.1**	**2.3**	**1.8**
Memorandum items:					
Oil-exporting countries	-1.2	1.9	6.4	7.0	5.9
Non oil-exporting countries	-3.1	-2.6	-2.4	-2.7	-2.7

Note: Due to lack of data, these aggregates do not include Liberia and Somalia.
Source: Authors' (e) estimates; (p) projection.

exporting countries (reaching 7 per cent of GDP) and then declining somewhat in 2007. On the other hand, the average deficit of the group of non-oil-exporting countries is expected to worsen slightly, reaching 2.7 per cent, and then to remain at that level in 2007.

North Africa

In North Africa the average fiscal balance exhibited a surplus equivalent to 3.2 per cent of GDP in 2005, as the largest oil-exporting countries in the region, Algeria and Libya, increased their surpluses to 13.7 per cent and 24.4 per cent, respectively. Mauritania, which is expected to start exporting oil in 2006 but already received revenue from oil companies in 2005, reduced its fiscal deficit from 20.4 per cent of GDP in 2004 to 3.4 per cent in 2005. Egypt, Sudan and Tunisia, on the other hand, experienced a slight worsening of their fiscal balances in 2005. In 2006 every country is projected to improve its fiscal balance. Little change is expected in 2007 except for Algeria whose fiscal surplus is expected to decrease somewhat.

West Africa

In 2005, fiscal balances deteriorated in 9 countries in West Africa. Among these, Guinea-Bissau registered the largest deterioration with a fiscal deficit that increased from 8.4 per cent of GDP in 2004 to 14.4 per cent in 2005. Among the five countries that improved their fiscal balance in 2005, Nigeria and Guinea stood out with improvements of about 4.5 percentage points. The projections for 2006 and 2007 are for stable or improving overall fiscal balances in most countries. In the case of Nigeria, however, the currently very high fiscal surplus is expected to decrease in both 2006 and 2007.

Central Africa

In 2005 the average fiscal position in Central Africa improved for the fourth year in a row, due largely to the improvement in its largest economy Cameroon, where fiscal balances changed from a deficit of 0.6 per cent of GDP in 2004 to a surplus of 2 per cent of GDP in 2005; and a very large improvement in the Republic of Congo, where the fiscal surplus increased from 3.9 per cent of GDP to 19.4 per cent of GDP, mainly due to windfall oil revenues. The other two major oil-exporting countries of Central Africa (Equatorial Guinea and Gabon) also improved their fiscal balances significantly, and a spectacular turnaround of fiscal balances occurred in São Tomé and Principe, where the 2004 deficit of 26.3 per cent of GDP turned into a surplus of 51.4 per cent of GDP in 2005 due to revenue received from oil companies although exports have not yet begun. Projections for 2006 and 2007 show slight decreases in Central Africa's average fiscal surplus as a per cent of GDP, largely due to lower projected surpluses in Cameroon.

East Africa

After two years of improvements (2003 and 2004), fiscal balances worsened in East Africa in 2005, reaching -3.4 per cent of GDP. The deterioration is largely due to increased fiscal deficits in East Africa's three largest economies: Kenya, Ethiopia and Tanzania, accounting for about two-thirds of East Africa's GDP. In Kenya, fiscal balances worsened from a surplus of 0.3 per cent in 2004 to a deficit of -1.8 per cent in 2005; in Ethiopia, the fiscal deficit increased from -3.8 per cent in 2003/04 to -4.8 per cent in 2004/05; while Tanzania's deficit increased from 3.5 per cent in 2004 to 4.8 per cent in 2005. In 2006 and 2007 fiscal deficits tend to stabilize at their 2005 levels with very little adjustment expected to take place.

Southern Africa

The average fiscal balance of the countries in Southern Africa improved from -1.8 per cent of GDP in 2004 to -0.8 per cent of GDP in 2005, largely reflecting a slight improvement in South Africa's fiscal balance (from a deficit equivalent to 1.5 per cent of GDP in 2004/05 to a deficit of 0.5 per cent in 2005/06) and a major improvement in Angola (from -1.5 per cent in 2004 to 7.5 per cent in 2005), reflecting windfall oil revenues. Excluding Zimbabwe, which plunged deeper into deficit (reaching -16.1 per cent in 2005), there were only small changes in the fiscal balances of the remaining seven Southern African countries, with Malawi, Namibia and Zambia slightly improving their fiscal balances and Botswana, Lesotho, Mozambique and Swaziland experiencing slight deteriorations. The projections for 2006 show an overall marginal improvement in average fiscal balances, with small deteriorations projected for South Africa and improvements projected for Angola and Zimbabwe. There are no major changes projected in the fiscal balances of any of the Southern African countries for 2007.

Balance of Payments

In 2005, Africa's average external trade balance exhibited a large surplus equivalent to 6.8 per cent of GDP. This overall figure, however, masks large differences among countries. On the one hand, oil-exporting countries recorded a trade surplus of 19.8 per cent in 2005 (up from 14.2 per cent in 2004); on the other hand, the group of non-oil-exporting countries experienced a significant increase in their average trade deficit to 5.6 per cent of GDP in 2005 (up from 4.2 per cent in 2004). These developments in trade balances were also far more homogenous within the group of oil-exporting countries than in the group of non-oil-exporting countries. Among the latter, eight countries improved their trade balances: The Comoros and Namibia slightly and the other six countries (Burundi, Eritrea, Guinea, Mauritania, São Tomé and Principe and Seychelles) by more than 4 percentage points as a share of GDP. The surplus in the trade balances of oil-exporting countries is projected to increase slightly in 2006 and then fall moderately in 2007. Meanwhile the average trade deficits of the non-oil exporting countries in 2006 and 2007 are expected to be about the same as in 2005.

Africa's overall balance of payments has benefited from increased foreign direct investment flows and significantly reduced debt service payments in many heavily indebted poor countries (HIPCs) (see details in previous section). As of end-2005, 14 African

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

Region	1997-2003	2004	2005(e)	2006(p)	2007(p)
Central Africa	11.3	19.7	27.8	28.9	26.3
East Africa	-9.6	-12.3	-14.1	-14.3	-13.5
North Africa	-1.7	3.5	6.9	7.0	5.0
Southern Africa	3.4	2.1	3.7	5.4	6.7
West Africa	7.2	12.9	14.3	12.9	10.3
Total	**1.2**	**4.3**	**6.8**	**7.2**	**6.3**
Memorandum items:					
Oil-exporting countries	4.4	14.2	19.8	20.1	18.1
Non oil-exporting countries	-1.8	-4.2	-5.6	-5.7	-5.8

Note: Due to lack of data, these aggregates do not include Liberia and Somalia.
Source: Authors' (e) estimates; (p) projection.

countries had reached their completion points and 10 additional African countries had reached the decision point under the enhanced HIPC Initiative.

North Africa

Northern African countries continued to display large differences in their trade balances in 2005. While Algeria and Libya increased their trade surpluses to about 25 per cent of GDP in 2005, Egypt, Morocco and Tunisia continue to have trade deficits close to 10 per cent of GDP. Egypt experienced a slight deterioration; Morocco and Tunisia achieved slight improvements. Mauritania made significant progress in reducing its trade deficit from 20.4 per cent in 2004 to 3.4 per cent in 2005, while Sudan experienced a slight deterioration in its trade balance from 1.2 per cent in 2004 to -0.2 per cent in 2005. Largely due to improvements in Algeria, Libya and Mauritania, North Africa's trade surplus improved from 3.5 per cent in 2004 to 6.9 per cent in 2005. In 2006 and 2007 the trade balances of Libya and Mauritania are expected to improve, while those of Algeria, Egypt, Morocco and Tunisia are expected to worsen.

West Africa

In 2005, six countries in West Africa (Benin, Burkina Faso, Ghana, Mali, Niger, Senegal) experienced an increase in their trade deficits to levels ranging from about 8 to 14 per cent of GDP. Improvements in trade balances were registered only in Nigeria, Guinea and The Gambia. The average trade balance in West Africa is dominated by Nigeria where the trade surplus increased to nearly 27 per cent of GDP in 2005 up from about 25 per cent in 2004. Little change is expected in 2006 or 2007 for most of the deficit countries, although significant declines in trade deficits are projected for Sierra Leone and The Gambia. And the trade surplus of Nigeria is expected to shrink somewhat to about 20 per cent in 2007.

Central Africa

In 2005, the average trade balance in Central Africa registered a further improvement reaching a surplus equivalent to 27.8 per cent of GDP, largely due to further large increases in the nominal value of oil exports, especially in Chad, the Republic of Congo and Gabon. The trade balances also improved considerably in Equatorial Guinea and very sharply in São Tomé and Principe as imports of goods related to expansion of oil production tapered off. Three countries (the Central African Republic, the DRC and Rwanda) experienced small deteriorations in their trade balances. In 2006 and 2007 the trade surpluses of most oil-exporting countries in Central Africa are expected to decrease slightly.

East Africa

In 2005 the average trade deficit in East Africa widened for the fourth year in a row to reach 14.1 per cent of GDP up from 12.3 per cent in 2004. This was largely due to the sizeable deterioration between 2004 and 2005 in the deficits of Madagascar (from 10 per cent of GDP to 13.8 per cent), Mauritius (from 9.1 per cent of GDP to 13.6 per cent) and Tanzania (from 8.4 per cent of GDP to 10.4 per cent); trade deficits also widened in Djibouti, Ethiopia, Kenya and Uganda. The Comoros reduced its trade deficit from 3 per cent of GDP in 2004 to 0.5 per cent in 2005, while the Seychelles experienced a significant improvement from a deficit of 1.5 per cent of GDP in 2004 to a surplus of 7.2 per cent in 2005.

Southern Africa

Among the countries in Southern Africa, Angola experienced an increase in its trade surplus to 52.4 per cent of GDP in 2005, up from 39.1 per cent in 2004, as a result of rising oil production and prices and of increased diamond production. The trade balance worsened in all other Southern African countries, except in Mozambique, where it marginally improved in 2005, thanks to buoyant aluminium exports. Nevertheless, a new wave of mega-projects will lead to a strong increase in capital goods imports and a slight deterioration of the balance of trade in 2006 and 2007. Trade deficits in South Africa and in Zimbabwe widened in 2005 to reach 3.6 and 16.1 per cent of GDP, respectively. South Africa's trade balance is projected to remain nearly stable in 2006 and 2007, while Angola's very high trade surplus is projected to improve further in 2006 before narrowing slightly in 2007. Zimbabwe's trade deficit is projected to narrow in both 2006 and 2007.

The Millennium Development Goals: Progress Report

There is a general consensus today that Africa is lagging behind other continents in its progress towards the MDGs (Millennium Development Goals). The limited progress that African countries are making is explained by a number of factors. In some, conflicts and civil wars have not only held back progress but have in fact reversed the gains that had been made earlier. In others, inappropriate economic policies and governance problems have held back growth and hence incomes; it has also made it difficult for governments to provide, let alone expand, the provision of essential social services. The HIV/AIDS pandemic has also had an enormous adverse impact in terms of dampening growth and in depriving societies of some of their most productive members. And in almost all the low-income countries, the limited resources available to finance the investments required in key sectors such as agriculture, health, education, and infrastructure continues to be a major constraint.

However, an increasing number of African countries have made significant progress in putting in place sound policies to tackle their development challenges. The adoption of poverty reduction strategies and their further refinement are beginning to give greater policy coherence and direction to the effort to achieve the MDGs.

In Table 5, countries are classified into two categories:

i) *Achieved:* the country has already achieved the target.
ii) *On track:* the actual growth rate of the indicator is equal or higher than the required growth rate to achieve the target.

Out of the 53 African countries, a satisfactory performance ratio is measured as the percentage of countries that has achieved or is on track to achieve the target. On current trends, it gives an idea of the percentage of countries that should meet the target in 2015. However, some data are missing and countries could make some important progress, so this percentage should be considered as a minimum percentage of those able to meet the target by 2015.

Goal 1 - Reducing extreme poverty and hunger by half

Monetary poverty

This first target refers to halving the proportion of people living in extreme poverty, with less than one dollar a day. In Northern Africa, rates of extreme poverty have changed slowly from 1990 to 2001 but countries (Algeria, Egypt, Libya, Morocco and Tunisia) are on track to achieve this goal. In Sub-Saharan Africa, which already had the world highest poverty rates, millions of people fell deeper into poverty. With the exception of Mauritius, Sub-Saharan countries will not meet this goal on current trends. Extreme poverty still reaches more than 50 per cent of the population in Burundi, Central African Republic, Chad, the Gambia, Madagascar, Mali, Niger, Nigeria, Rwanda, Sierra Leone, Zambia, and Zimbabwe among others.

Hunger

In Sub-Saharan Africa, negligible progress has been made, partly due to the increase in overall population size, declining agricultural productivity and conflicts. In 2004, the majority of the 35 countries requiring international emergency assistance were in Africa, in conflict or post-conflict situations. However, 17 countries (32 per cent of the African countries) managed to reduce hunger by at least 20 per cent during the last decade (1990/92 – 2000/02) and should be able to meet the target[19]. Ghana is the only Sub-Saharan country that has already achieved the target

19. Angola, Benin, Chad, Republic of Congo, Egypt, Gabon, Ghana, Guinea, Kenya, Lesotho, Libya, Malawi, Mauritania, Mozambique, Namibia, Nigeria and Tunisia.

and has reduced hunger by 66 per cent between 1990/92 and 2000/02.

Goal 2 - Achieving universal primary education

Primary school enrolment

Sub-Saharan Africa has made slow progress towards universal primary education. The satisfactory performance ratio shows only 26.4 per cent of African countries are likely to meet the target. Millions of children are still out of school and more than half of them are girls. All North African countries have already reached at least 90 per cent of primary school enrolment as well as Seychelles, Cape Verde, Mauritius, South Africa, São Tomé and Principe and Togo. Some other countries are making outstanding progress and have increased the primary enrolment rate by more than 60 percentage points (the Gambia, Guinea and Mauritania) between 1990/91 and 2002/03. Generally, 15 other African countries have reached a growth rate of at least 20 per cent on the period, which is still not enough to reach 100 per cent by 2015.

Completion rates

Primary school enrolment should be complemented by indicators of school failures (dropping out, repeating grades, poor quality of education) to represent better children who would not become literate individuals. For example, in Burkina Faso, only 36 per cent of grade 1 students reached grade 5 in 2001/02. Primary completion rates are very close to 100 per cent in Algeria, Egypt, Mauritius, Namibia, Seychelles, and Tunisia. Significant progress of more then 20 percentage points between 1990/91 and 2001/02 has been observed in Benin, Madagascar, Mozambique and Togo.

Goal 3 - Eliminating gender disparity

Only goal 3 focuses on gender equality and women's empowerment in three areas: education, employment and political decision-making. Parity between girls and boys in primary and secondary school enrolment should be reached preferably by 2005 but gender gaps in education are still serious in Sub-Saharan Africa. However, in the outstanding cases of Algeria, Botswana, Cape Verde, Egypt, Ghana, Kenya, Lesotho, Madagascar, Mauritius, Morocco, Namibia, Nigeria, São Tomé and Principe, Seychelles, South Africa, Swaziland, Tunisia, Zambia and Zimbabwe, there was no significant difference between boys and girls, either in primary or in secondary school. Eliminating gender disparity in education is the most satisfactory target in primary school with a satisfactory performance ratio of 71.7 per cent. However, the ratio falls to only 37.7 per cent as we consider secondary education.

Furthermore, African countries still fall very short on women's economic and political participation. Considering the seats in parliament held by woman as a percentage of the total, only a few African countries have reached 20 per cent (Eritrea, Mozambique, Namibia, Rwanda, South Africa, Tanzania, Tunisia, and Uganda). For instance, Rwanda has nearly reached perfect parity with 48.8 per cent of seats held by women in 2005 compared to 17 per cent in 1990.

Goal 4 – Reducing child mortality

In Africa, thousands of children die each day from a disease that could be simply prevented or treated owing to the lack of antibiotics or diarrhoea. Child mortality should be cut by two thirds by 2015 but advances slowed in the 1990s. No African country has yet achieved the target and in Southern Africa, countries reeling from HIV/AIDS have seen increases in under-five deaths. 11 countries have already reduced child mortality by more than 40 per cent (Algeria, Cape Verde, Comoros, Egypt, Eritrea, Gabon, the Gambia, Libya, Morocco, Namibia and Tunisia). On the contrary, 11 countries have slipped back (Angola, Burkina Faso, Cameroon, Democratic Republic of Congo, Côte d'Ivoire, Kenya, Niger, Nigeria, South Africa, Swaziland and Tanzania).

Goal 5 – Improving maternal health

The goal of reducing the maternal mortality ratio by three-quarters seems discouraging in Africa. Recent estimates continue to indicate the highest ratios of maternal mortality are in Sub-Saharan Africa, with an average of 920 deaths out of 100 000 live births and there is no evidence the ratios are declining. Mothers die in pregnancy and childbirth mainly because health systems are inappropriate, especially in rural areas. Only Mauritius has achieved the target but 12 other countries seem on track to improve maternal health. Data on the proportion of births attended by skilled health personnel show that progress was made in 2003 but only in Northern Africa.

Goal 6 – Combating HIV/AIDS, malaria and other disease

The goal of halting HIV/AIDS and other major diseases (malaria, tuberculosis) by 2015 appears daunting in Africa as these three diseases are highly concentrated in the poorest countries. AIDS has become the first cause of premature death in Sub-Saharan Africa and nearly two thirds of an estimated 39.4 million people living with HIV worldwide are from African countries. The prevalence rate among adults (aged 15-49) reached 7.3 per cent in 2004 and the epidemic shows no sign of slowing. Only in North African countries, does the official rate of adult prevalence not exceed 0.1 per cent. The worst affected countries are in southern Africa, 37.3 per cent of adults have HIV in Botswana and 38.8 per cent in Swaziland. Furthermore, the share of infected females is growing and reached 57 per cent in SSA in 2004 as a result of gender-based violence and discrimination. Tuberculosis is helped by the emergence of drug-resistant strains and the vulnerabilities created by HIV/AIDS. No African country has yet achieved the target of halving the spread of tuberculosis and only 5 countries are likely to reduce it (Comoros, Egypt, Libya, Seychelles and Tunisia). The figures for malaria in 2000 are impressively high, especially in Guinea (75 386 cases per 100 000 people), Botswana (48 704) or Burundi (48 098).

Goal 7 – Ensuring environmental sustainability

Reversing the loss of environmental resources, along with provision of safe water, adequate sanitation and decent housing are part of goal 7. For access to safe drinking water, coverage remains low, especially in rural areas and urban slums, and much slower progress has been made in improving basic sanitation. In 22.6 per cent of the countries, the number of people without access to safe water is expected to be halved. For the 6 countries which have already achieved the target, the percentage of people having access to safe water is still below 100 per cent. For example, the figure for 2002 is 73 per cent for Tanzania (compared to 38 per cent in 1990), 75 per cent in Central African Republic (compared to 48 per cent in 1990) and 79 per cent in Ghana (compared to 54 per cent in 1990).

Goal 8 – Developing a global partnership for development

Goal 8 embodies partnership between developed and developing countries through aid, debt relief and trade. As illustrated earlier, Official Development Assistance (ODA) to Sub-Saharan Africa has increased from 12 per cent of GDP in 1990 to 18.6 per cent in 2003. Furthermore, in 2005, the G8 have made major commitments such as, a doubling of aid by 2010, equal to an extra $25 billion for Africa, while the European Union has committed itself to disbursing an additional €23 billion ($27 billion) a year in Africa by 2015. The average debt burden has also improved in Sub-Saharan Africa, from 3.8 per cent in 1990 to 2.9 per cent in 2003. In 2005, there was an agreement to increase grant-based financing and to cancel 100 per cent of multilateral and bilateral debt of HIPCs (Heavily Indebted Countries). In June 2005, the $40 billion of debt that 18 countries (14 African countries) owe to the World Bank, the IMF and the ADB were fully cancelled but a total of $55 billion will be written off as more countries qualify. Finally, with respect to external trade, the Doha Work Programme reflected by the WTO (World Trade Organisation) July 2004 Framework, holds the promise of eliminating the tariff and non-tariff barriers for Africa's exports as well as reducing the trade-distorting agricultural subsidies of industrial countries. However, in view of the limited progress made at the 6th WTO Hong Kong Ministerial, a lot remains to be done to bring the Doha Round of trade negotiations back on track. Enhancing aid effectiveness and donor co-ordination should be central priorities in the years ahead.

Table 5 - Progress Towards Achieving the Millennium Development Goals

		Goal 1	Goal 2		Goal 3		Goal 4	Goal 5	Goal 6	Goal 7	
		Eradicate extreme poverty and hunger	**Achieve universal primary education**		**Promote gender equality and empower women**		**Reduce child mortality**	**Improve maternal health**	**Combating HIV/AIDS, malaria and other disease**	**Ensure environmental sustainability Target**	
Targets		Halve the % of people suffering from hunger	Ensure that all children can complete primary school		Eliminate gender disparity in all levels of education		Reduce by 2/3 under 5 mortality rates	Reduce maternal mortality by 3/4	Halt and reverse spread of Tuberculosis	Halve the % of people without access to safe water	Number of targets to be achieved
Indicators HDI Rank		Under-nourished people (%)	Net primary enrolment ratio (%)	Children reach grade 5 (% of grade 1)	Female primary ratio as % of male ratio	Female secondary ratio as % of male ratio	Under five mortality rates (per 1000 lives)	Maternal mortality ratio (per 100 000 live births)	Tuberculosis incidence (per 100 000 people)	Access to improved safe water (%)	
103	Algeria		On track	On track	On track	Achieved	On track				**5 of 9**
160	Angola	On track			On track						**2 of 9**
162	Benin	On track									**1 of 9**
131	Botswana			On track	Achieved	Achieved					**3 of 9**
175	Burkina Faso										**0 of 9**
169	Burundi				On track					On track	**2 of 9**
148	Cameroon										**0 of 9**
105	Cape Verde		Achieved	On track	On track	Achieved	On track				**5 of 9**
171	Central African Rep.									Achieved	**1 of 9**
173	Chad	On track									**1 of 9**
132	Comoros				On track		On track	On track	On track	On track	**5 of 9**
142	Congo	On track			On track			On track			**3 of 9**
167	Congo, DRC										**0 of 9**
163	Côte d'Ivoire				On track					On track	**2 of 9**
150	Djibouti				On track						**1 of 9**
119	Egypt	On track	On track	On track	On track	On track	On track	On track	On track	Achieved	**9 of 9**
121	Equat. Guinea		On track		On track						**2 of 9**
161	Eritrea			On track	On track		On track	On track			**4 of 9**
170	Ethiopia				On track			On track			**2 of 9**
123	Gabon	On track			Achieved		On track				**3 of 9**
155	Gambia				On track		On track	On track			**3 of 9**
138	Ghana	Achieved			On track	On track				Achieved	**4 of 9**
156	Guinea	On track			On track			On track			**3 of 9**
172	Guinea- Bissau										**0 of 9**
154	Kenya	On track			Achieved	On track				On track	**4 of 9**
149	Lesotho	On track	On track		Achieved	Achieved					**4 of 9**
999	Liberia										**0 of 9**

58	Libya	Achieved	Achieved				On track	On track	On track		**5 of 9**
146	Madagascar				Achieved	Achieved					**2 of 9**
165	Malawi	On track				On track				On track	**3 of 9**
174	Mali										**0 of 9**
152	Mauritania	On track			On track						**2 of 9**
65	Mauritius		On track	Achieved	Achieved	Achieved		Achieved		Achieved	**6 of 9**
124	Morocco		On track		On track	On track	On track	On track			**5 of 9**
168	Mozambique	On track			On track			On track			**3 of 9**
125	Namibia	On track		On track	Achieved	Achieved	On track			Achieved	**6 of 9**
177	Niger										**0 of 9**
158	Nigeria	On track			On track	On track					**3 of 9**
159	Rwanda		On track		Achieved					On track	**3 of 9**
126	São T and Principe		On track		On track	On track					**3 of 9**
157	Senegal				On track			On track			**2 of 9**
51	Seychelles		Achieved	Achieved	Achieved	Achieved			On track		**5 of 9**
176	Sierra Leone										**0 of 9**
999	Somalia										**0 of 9**
120	South Africa		On track		Achieved	Achieved					**3 of 9**
141	Sudan				On track						**1 of 9**
147	Swaziland				Achieved	Achieved		On track			**3 of 9**
164	Tanzania			On track	On track					Achieved	**3 of 9**
143	Togo		On track		On track						**2 of 9**
89	Tunisia	Achieved	On track	On track	Achieved	Achieved	On track		On track		**7 of 9**
144	Uganda										**0 of 9**
166	Zambia				On track	On track					**2 of 9**
145	Zimbabwe				Achieved	On track					**2 of 9**
	Achieved	**3**	**3**	**2**	**13**	**11**	**0**	**1**	**0**	**6**	
	On track	**14**	**11**	**8**	**25**	**9**	**11**	**12**	**5**	**6**	
	Satisfactory Performance Ratio	**32,1%**	**26,4%**	**18,9%**	**71,7%**	**37,7%**	**20,8%**	**24,5%**	**9,4%**	**22,6%**	

Sources: Author's calculations based on data from UNDP (2005) Human Development Report, New York: Oxford University Press and World Bank (on line) World Development Indicators, Washington, D.C.

Governance and Political Issues

African governments and international donors have given heightened emphasis to the promotion of good governance since the early 1990s. Over the same period, democracy has taken root in a number of African countries and the frequency, if not the intensity, of conflicts has subsided. Corruption, however, continues to be prevalent in many countries and poses a key constraint to economic growth, sustainable development, and progress towards the Millennium Development Goals (MDGs). Corruption is foremost a symptom of dysfunctional governance, characterised by institutional failures to uphold rules and values of transparency and accountability, promote norms that condemn venality, enforce sanction mechanisms, and promote democracy in Africa.

Progress Towards Democracy

Presidential and/or legislative elections were held in a number of African countries in 2005. After Mozambique, a year later Tanzania joined the still limited, but growing, number of countries seeing the peaceful passage of presidential powers. Egypt held its first-ever multi-party elections, in which the opposition made substantial gains. Incumbent heads of state were easily re-elected in Burkina Faso (80 per cent), Djibouti (100 per cent), Egypt (89 per cent), Gabon (79 per cent), and Togo (60 per cent). In Ethiopia, alleged fraud in May's parliamentary elections led to popular protests.

Various countries organised important referendums. In Uganda, 92.5 per cent of voters approved the re-establishment of the multiparty system, which had been banned under Article 269 of the Constitution. In Burundi, a new Constitution was approved by an overwhelming majority of 90.1 per cent of voters. The Constitution provides for the sharing of power between Tutsis and Hutus, the main ethnic groups that make up respectively 14 and 85 per cent of the population. In the DR Congo, the draft Constitution was approved. In Kenya, on the other hand, a government-backed new constitution was rejected, prompting the President to suspend Parliament.

Major progress was also registered in the resolution of two major internal conflicts. On 6 July 2005, a new transitional Constitution was ratified by Sudan's National Assembly, which paved the way for the inauguration of a new Government. Ellen Johnson Sirleaf was sworn in January 2006 as Liberia's first post-war president, following her victory in the December 2005 run-off election. On the other hand, in Mauritania the "Military Council for Justice and Democracy", led by Colonel Ely Ould Mohamed Vall, seized power in a bloodless coup in August 2005.

The Democratic Republic of Congo, Côte d'Ivoire, and Liberia will either begin or conclude delicate political transition programmes in 2006. Between January and March 2006, elections were also held in Uganda (where the incumbent president was re-elected with 59.28 per cent of votes), Cape Verde, Benin, São Tomé and Principe, and before the end of the year they are planned in Angola, Côte d'Ivoire, DR Congo, Chad, Gambia, Gabon, Mauritania, Madagascar and Zambia.

Conflicts and Political Troubles

According to the *AEO* political trouble indicator (reported in the statistical appendix), political instability has been declining in 2005 throughout the continent and most notably in Algeria, Cameroon, Nigeria, and South Africa. Nevertheless, in the run up to, and aftermath of elections, political troubles tend to increase. In 2005 public demonstrations and riots, clashes with the security forces, and, in some cases, a huge toll in human life, have been recorded in Egypt, Ethiopia, Gabon, and Zimbabwe. Political tensions have also increased in Chad, as well as in Kenya following the rejection of the national constitutional review. In Niger, mounting tensions were related to famine and troubles in the north of the country.

More generally, political instability has decreased over the past few years. After 27 years of civil war, Angola appears well on the road towards pacification, and the political situation in Sierra Leone, Liberia and Guinea-Bissau also moved towards normalisation. War, however, remains the strongest threat to democracy and human rights in Africa. In the Democratic Republic of Congo,

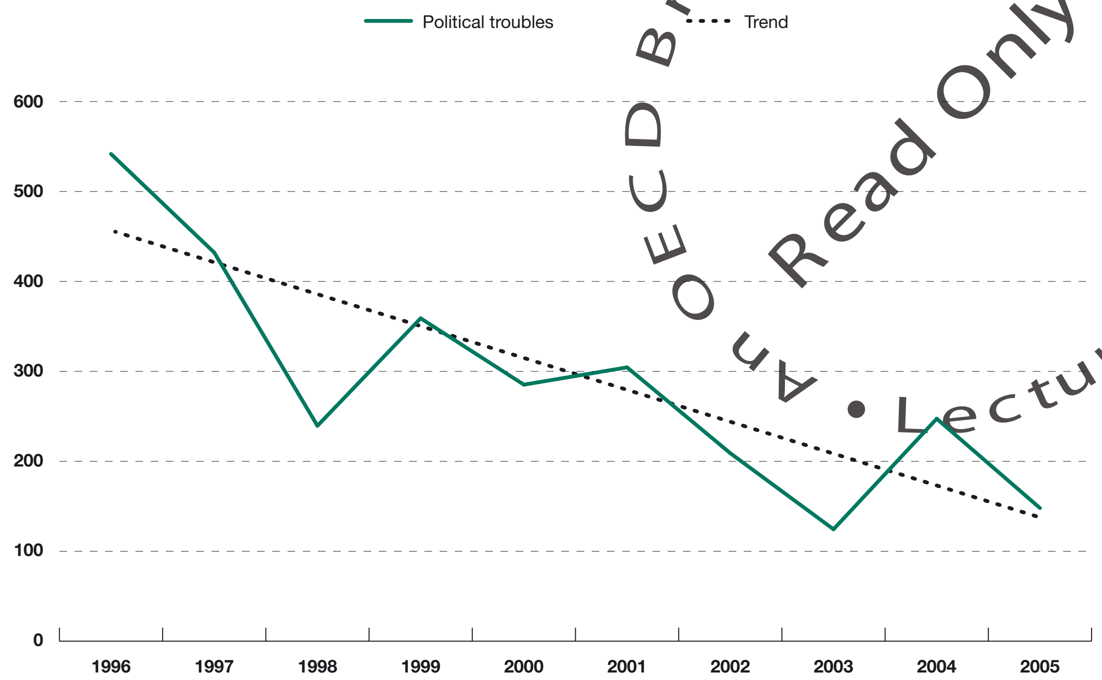
Table 6 - **Elections in Africa, 2005-06**

	2005	2006
Algeria	Referendum (29 September)	
Angola		Presidential and parliamentary, (August)
Benin		Presidential (5 March)
Botswana		
Burkina Faso	Presidential (13 November)	
Burundi	Presidential (19 August), Legislative (4 July) and Referendum (28 February)	
Cameroon		
Cape Verde		Presidential (12 February) and parliamentary (22 January)
Central African Republic	Presidential and Parliamentary (13 March and 1 May)	
Chad		Presidential (April)
Congo		
Congo, Dem. Rep.	Constitutional referendum (18-19 December)	Presidential and parliamentary (18 June)
Côte d'Ivoire		Parliamentary (31 October)
Djibouti	Presidential (8 April)	
Egypt	Presidential (September) and legislative (November/December)	
Ethiopia	Parliamentary (15 May)	
Gabon	Presidential (27 November)	Parliamentary (December)
Gambia		Presidential (October)
Ghana		
Guinea		Parliamentary (June)
Guinea-Bissau	Presidential (24 July)	
Kenya	Constitutional referendum (21 November)	
Liberia	Presidential and Legislative (11 October)	
Madagascar		Presidential and parliamentary (December)
Mali		
Mauritania		Referendum (24 June), legislative (19 November)
Mauritius	Parliamentary (3 July)	
Morocco		
Mozambique		
Nigeria		
Rwanda		
São Tomé and Principe		Parliamentary (March)
Senegal		
South Africa		
Tanzania	Presidential and Legislative (14 December)	
Togo	Presidential election (24 April)	
Tunisia		
Uganda	Referendum (28 July)	Presidential and parliamentary (23 February)
Zambia		Presidential and parliamentary (December)
Zimbabwe	Parliamentary (31 March and 26 November)	

Source: www.electionguide.org

continuous fighting in the East is threatening progress in the transition to peace and democracy. Tensions between Ethiopia and Eritrea resurfaced in 2005. Conflicts in Northern Uganda and Northern Kenya continue, while in Côte d'Ivoire the situation remains volatile regarding the conduct of a new presidential

Figure 8 - **Political Troubles in Africa, 1996-2005**



Note: the indicator has been calculated on the basis of 25 countries: Algeria, Botswana, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Kenya, Mali, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Tunisia, Uganda, Zambia and Zimbabwe.
Source: Based on Appendix Table 21.

election - expected by December 2005 and now postponed to October 2006 - and the formation of a caretaker national government to prepare such polls. The ongoing Darfur crisis in Western Sudan has lingered and may destabilise neighbouring nations such as Chad, which already hosts huge numbers of refugees.

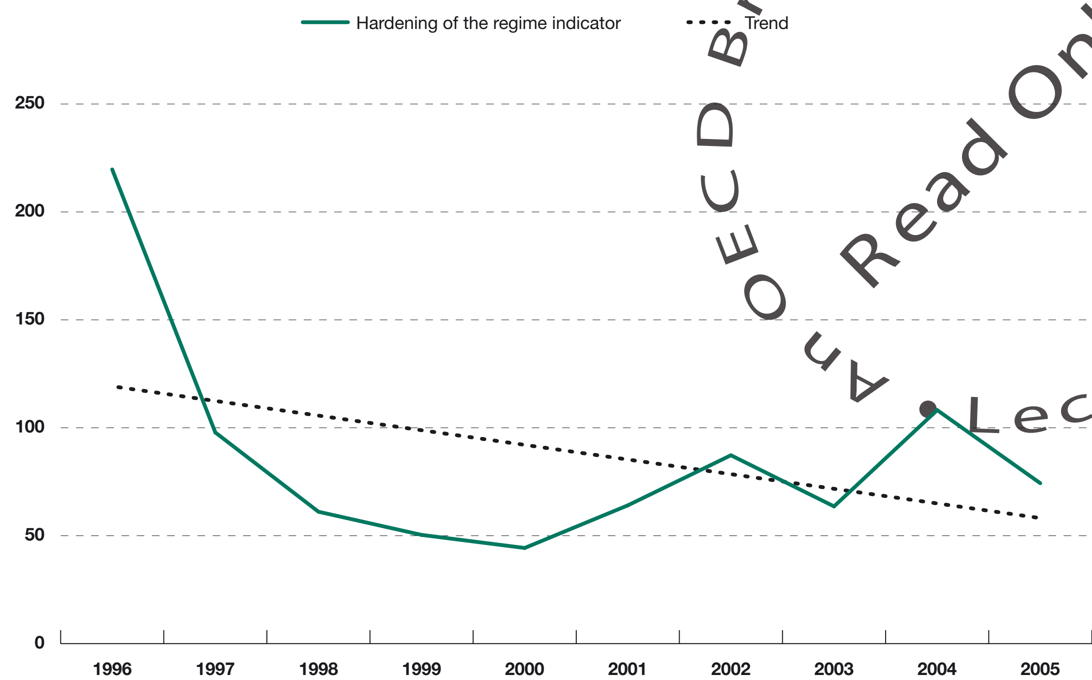
The severity of Africa's security situation is reflected in the weight that the Continent has in the 2005 global peacekeeping operations of the United Nations – 75.54 per cent of the total number of serving personnel and 57.24 per cent of approved resources for the period from 1 July 2005 to 30 June 2006.[20] Current missions include MINURSO, United Nations Mission for the Referendum in Western Sahara (since April 1991), MONUC, United Nations Mission in the Democratic Republic of the Congo (since November 1999), UNMEE in Ethiopia and Eritrea (since July 2000), UNMIL in Liberia (since September 2003), UNOCI in Côte d'Ivoire (since April 2004), ONUB in Burundi (since June 2004), and UNMIS in the Sudan (since March 2005). UNAMSIL in Sierra Leone was completed on 31 December 2005.

The Political Stance

The strengthening of democracy across the continent has contributed to a lessening of political repressions (as defined by "hardening" in the statistical annexes to this volume) in the last decade, as more governments have adhered to the rule of law and respect for human rights. The upholding of civil rights and liberties has improved in countries including Algeria, Cameroon, Nigeria and South Africa. However, in others, such as the Democratic Republic of the Congo, Côte d'Ivoire, Chad, and Zimbabwe, the authorities have countered rising instability by hardening their political stance.

20. http://www.un.org/Depts/dpko/dpko/index.asp.

Figure 9 - **Political Hardening in Africa, 1996-2005**



Note: the indicator has been calculated on the basis of a 25-country sample: Algeria, Botswana, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Kenya, Mali, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Tunisia, Uganda, Zambia and Zimbabwe.
Source: Based on Appendix Table 23.

Corruption

Corruption is not uniquely an African phenomenon; it occurs in every country and at various levels. However, according to the Transparency International annual survey, 31 of the 44 African states listed on the CPI 2005 scored less than three — "a sign of rampant corruption".

African leaders today acknowledge the urgency of effectively and systematically combating the impacts of this pernicious act; and important strides have been made in this regard. At the African Union July 2005 summit, leaders pledged to show zero-tolerance for all forms of corruption and to enhance transparency and good governance. Promotion of good governance and the need for regional cooperation in the fight against corruption are in fact at the heart of regional initiatives such as the AU's New Partnership for Africa's Development (NEPAD). The commitment by African countries to combat economic and political corruption features prominently in NEPAD's African Peer Review Mechanism (APRM) framework, and is subject to periodic scrutiny through peer-review processes. The APRM process is now well advanced, with 26 countries having formally acceded to the instrument. A review of Ghana is the first to have been completed, and that of Rwanda will be completed shortly. Kenya and Mauritius will be reviewed in the immediate future, with Algeria, Nigeria and Uganda to follow thereafter. The African Union Convention on Preventing and Combating Corruption, on the other hand, is still eight ratifications short of the 15 needed for it to enter into force.

Unfortunately, according to Transparency International, there were significant setbacks in the fight against corruption in certain countries. In Algeria, the limited public access to information continued to constrain the media's ability to investigate corruption. The managing editor of the daily *Le Matin* was sentenced to two years in prison for writing a book critical of the President. The credibility of Kenya's coalition government to make good on its anti-corruption campaign was dented by a series of high-profile scandals. Further, the resignation in February 2006 of President Kibaki's special adviser on governance and ethics led to the suspension of US and German grants in support of anti-corruption programmes. In Zimbabwe, the chaotic land reform process continues to cripple the agricultural economy and to strip the country of basic commodities such as fuel and food, as well as foreign currency. Informal markets have emerged to satisfy the need for basic items and foreign currency. More positively, new powers and a new governor at the reserve bank appear to be making headway in cleaning up the financial sector.

Other countries have made significant and positive strides. Cameroon joined the Extractive Industries Transparency Initiative (EITI) and committed to publish quarterly data on oil production, sales prices and

Table 7 - **Corruption Perception Indexes (CPI) for African Countries, 2004 and 2005**

Country	Global Rank 2005	CPI 2005	Global Rank 2004	CPI 2004
Botswana	32	5.9	31	6.0
Tunisia	43	4.9	39	5.0
South Africa	46	4.5	44	4.6
Namibia	47	4.3	54	4.1
Mauritius	51	4.2	54	4.1
Seychelles	55	4.0	48	4.4
Ghana	65	3.5	64	3.6
Burkina Faso	70	3.4	-	-
Egypt	70	3.4	77	3.2
Lesotho	70	3.4	-	-
Morocco	78	3.2	77	3.2
Senegal	78	3.2	85	3.0
Rwanda	83	3.1	-	-
Benin	88	2.9	77	3.2
Gabon	88	2.9	74	3.3
Mali	88	2.9	77	3.2
Tanzania	88	2.9	90	2.8
Algeria	97	2.8	97	2.7
Madagascar	97	2.8	82	3.1
Malawi	97	2.8	90	2.8
Mozambique	97	2.8	90	2.8
Gambia	103	2.7	90	2.8
Eritrea	107	2.6	102	2.6
Zambia	107	2.6	102	2.6
Zimbabwe	107	2.6	114	2.3
Libya	117	2.5	108	2.5
Uganda	117	2.5	102	2.6
Niger	126	2.4	122	2.2
Sierra Leone	126	2.4	114	2.3
Burundi	130	2.3	-	-
Congo Rep. of	130	2.3	114	2.3
Cameroon	137	2.2	129	2.1
Ethiopia	137	2.2	114	2.3
Liberia	137	2.2	-	-
Congo, Dem. Rep.	144	2.1	133	2.0
Kenya	144	2.1	129	2.1
Somalia	144	2.1	-	-
Sudan	144	2.1	122	2.2
Angola	151	2.0	133	2.0
Côte d'Ivoire	152	1.9	133	2.0
Equatorial Guinea	152	1.9	-	-
Nigeria	152	1.9	144	1.6
Chad	158	1.7	142	1.7

Source: Transparency International.

Table 8 - **African Index of Economic Freedom**

Rank	Country	2006	2005	2004	2003	2002	2001	2000
	Sub-Saharan Africa							
30	Botswana	2.29	2.49	2.55	2.54	2.99	2.95	2.93
46	Cape Verde	2.69	2.84	2.86	3.30	3.25	3.56	3.61
50	South Africa	2.74	2.83	2.79	2.63	2.79	3.00	3.01
52	Madagascar	2.75	2.73	3.14	2.85	3.29	3.29	3.39
66	Uganda	2.95	3.00	2.70	2.95	3.15	3.15	3.15
77	Mauritius	3.03	2.90	2.99	2.96	2.95	2.98	2.90
78	Swaziland	3.04	3.11	3.18	3.05	3.2	3.05	3.16
83	Senegal	3.10	3.04	3.05	3.33	3.45	3.33	3.29
85	Namibia	3.11	3.15	2.96	2.70	2.84	2.93	2.98
88	Côte d'Ivoire	3.14	3.26	3.13	3.16	3.00	3.08	3.68
88	Mali	3.14	3.18	3.29	3.20	3.10	3.15	3.08
94	Djibouti	3.20	3.30	3.23	3.30	3.16	3.38	3.38
94	Kenya	3.20	3.23	3.26	3.21	3.23	3.26	3.05
94	Tanzania	3.20	3.41	3.24	3.49	3.51	3.60	3.58
99	Lesotho	3.24	3.41	3.50	3.29	3.39	3.44	3.44
102	Burkina Faso	3.28	3.28	3.28	3.35	3.33	3.45	3.56
102	Gabon	3.28	3.40	3.43	3.18	3.33	3.38	3.26
105	Chad	3.29	3.33	3.54	3.59	3.75	3.74	3.95
105	Ghana	3.29	3.25	3.35	3.54	3.54	3.24	3.24
111	Zambia	3.34	3.45	3.55	3.55	3.35	3.30	2.99
113	Mozambique	3.35	3.29	3.33	3.40	3.20	3.35	3.94
115	Niger	3.38	3.48	3.48	3.61	3.74	3.78	4.09
117	Benin	3.40	3.63	3.49	3.56	3.46	3.23	3.21
118	Central African Republic	3.41	3.51	3.38	3.28	3.31	n.a.	n.a.
119	Cameroon	3.46	3.60	3.63	3,54	3.45	3.50	3.73
123	Gambia	3.51	3.45	3.49	3.44	3.29	3.64	3.69
125	Rwanda	3.53	3.54	3.41	3.93	3.78	3.94	4.23
127	Guinea	3.55	3.33	3.24	3.26	3.45	3.21	3.34
130	Malawi	3.63	3.65	3.51	3.63	3.59	3.76	3.84
131	Guinea-Bissau	3.65	3.80	3.85	3.90	4.15	4.19	4.40
132	Burundi	3.69	n.a.	n.a.	n.a.	n.a.	n.a.	4.00
133	Ethiopia	3.70	3.73	3.33	3.79	3.70	3.83	3.65
134	Togo	3.71	3.68	3.78	3.86	3.88	4.00	4.05
136	Equatorial Guinea	3.74	3.58	3.69	3.73	4.15	4.13	4.18
137	Sierra Leone	3.76	3.78	3.73	3.95	n.a.	n.a.	4.09
139	Angola	3.84	n.a.	n.a.	n.a.	n.a.	n.a.	4.48
143	Congo, Rep. of	3.90	3.80	3.90	3.80	3.90	3.95	4.20
146	Nigeria	4.00	3.95	3.90	3.99	3.74	3.49	3.34
154	Zimbabwe	4.23	4.36	4.54	4.63	4.44	4.21	4.04
n/a	Congo, Dem. Rep.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.60
n/a	Sudan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.05
	North Africa							
81	Mauritania	3.08	2.98	2.99	3.15	3.46	3.89	4.00
97	Morocco	3.21	3.18	2.93	2.96	3.10	2.80	3.05
99	Tunisia	3.24	3.14	2.94	2.91	2.89	2.99	2.94
119	Algeria	3.46	3.49	3.26	3.39	3.05	3.45	3.40
128	Egypt	3.59	3.43	3.33	3.44	3.48	3.53	3.53
152	Libya	4.16	4.40	4.55	4.48	4.60	4.90	4.85

Source: The Heritage Foundation/The Wall Street Journal, 2006 Index of Economic Freedom.

revenues and update it regularly. The creation of Burkina Faso's new High Commission for the Coordination of Anticorruption Activities (HACLS) was met with optimism, and the success of the country's broader anticorruption strategy is closely tied to the ability of this new body to take on high-profile corruption cases. However, the failure of the government to publish the commission's 2004 report signals that important challenges still remain. Five Members of Parliament in South Africa were convicted in March 2005 in connection with a travel expense scandal involving over 100 Members of Parliament and seven travel agencies. Further, President Mbeki dismissed Deputy President Jacob Zuma as a result of his implication in the Schabir corruption scandal involving French company Thalès. Following the government determination to prosecute individuals involved in corruption or abuse of public office in Uganda, a new Inspector General of Government (IGG) was appointed in January 2005 to revamp the agency whose power had been trimmed by senior government officials unhappy to see the extent of their wealth revealed in the media.

Economic Governance

The significant improvements that have been achieved in macroeconomic management of most African countries are yielding positive economic outcomes and a framework in which innovation is welcomed and economic growth is enhanced. As indicated in the *2006 Index of Economic Freedom* published by the Heritage Foundation and the *Wall Street Journal*, economic freedom continues to advance around the world (Table 8).

Indeed, while persistent obstacles to achieving greater economic freedom still remain in North Africa, with four countries (Mauritania, Morocco, Tunisia and Egypt) showing declining freedom; the overall level of economic freedom in Sub Saharan Africa continues to improve, with 25 countries' economic freedom scores improving and 12 countries' scores declining.

Thanks to reforms to trade policy, informal market, and government intervention, Benin recorded the largest improvement, followed closely by Tanzania. Botswana reinforced its position as the region's freest country and serves as an example of the positive impact that economic policy can have on development. Its improved fiscal burden of government and government intervention scores vaulted Botswana into the ranks of the world's 30 freest countries.

Guinea declined more than any other country in the region. An improvement in Guinea's fiscal burden of government score was more than offset by declines in its trade policy, monetary policy, and banking and finance scores. Equatorial Guinea followed Guinea with the second biggest decline in economic freedom, with worse scores in fiscal burden of government and government intervention.

Even though its score improved marginally, Zimbabwe continues to be the least free country in the region. Economic policies, including expropriation of land and businesses, excessive government spending and inflationary monetary policy have discouraged foreign investment, hindered economic production, and led to extremely high unemployment. With a decline in its government intervention score, Nigeria joins Zimbabwe as sub-Saharan Africa's second "repressed" economy.

Promoting and Financing the Development of Transport Infrastructure in Africa

Economic growth and development depends upon adequate transportation infrastructure. Unfortunately, in Africa the performance of (mostly) government-owned providers of infrastructure has been very poor. Although there are important country-to-country variations, and some sub-sectors – notably air transport – have recorded considerable progress, operational inefficiency, technological dynamism and service to consumers remain poor, while prices are high compared with per capita incomes. Numerous opinion surveys show that poor people view isolation as a major factor contributing to their poverty and marginalisation. Deteriorating transportation infrastructure limits development opportunities outside of concentrated urban centres. Congested highways, seaports, and rail lines raise the cost of labour, reduce reliability, and delay shipments. In short, Africa remains a continent of stranded mobility.[21]

In an increasingly complex world of tightly integrated agriculture and manufacturing supply chains, governments need to pay close attention to the local, regional, and international efficiency and reliability of their transportation systems. Thus, the institutional structures and organisations that support the exploitation of transport infrastructure are becoming as important as the adequacy of the physical infrastructure itself. For example, in order to facilitate the growth of multimodal freight shipments, special attention should be paid to improving the management and quality of container terminals used for international trade, support for accelerated corridor development, and establishment of indigenous multimodal transport operators. The use of satellite and data-based technologies also offers increasingly cost-effective ways to upgrade and modernise the provision of communications, navigation and surveillance infrastructure and the management of African space.

This section reviews the state of roads, rails, air, and maritime transport in Africa and of the policy response and experiences in facilitating infrastructure development. The challenges of financing the rehabilitation and development of transport networks are prohibitive for either the public or the private sector acting alone. Partnerships to facilitate private-sector participation, a redefined role for the public sector, local community participation, regional and continental organisations and international donor involvement are all requisite ingredients. In particular, private sector participation in different guises, from full privatisation to private-public partnerships (PPPs), such as concessions or strategic partnerships, may help to overcome constraints on public sector borrowing, and on the public sector's capacity to implement large-scale infrastructure programs efficiently.

Transport, Growth, and Poverty Reduction in Africa

Insofar as physical access and mobility are embedded within all the Millennium Development Goals (MDGs), well-functioning transport infrastructure is crucial to their successful achievement (Table 9). Basic transport infrastructure, such as road and rail, and affordable transport services are required to provide effective access to social services, such as emergency obstetric care, as well as to reduce the financial burden to households and the time lost in travelling by foot, especially by women and young girls.[22] Good and affordable transport could assist people in weaving a national identity, accessing basic services and inputs, coping with shocks and disasters, selling their goods, both on national and international markets, facilitating labour movement, and maximising the benefits from close interactions between rural migrants to the urban areas and their families. Better transport may also reduce the cost of agricultural inputs, raise producer prices, facilitate the marketing of produce, and increase access to markets for the local private sector by lowering transport costs. Moreover, transport infrastructure at the supra-national level increases the size of the market, improves efficiency in production and distribution, supports the achievement of economies of scale, and raises total factor productivity. In addition, low-cost means of transport facilitate the creation of export-based manufacturing and service industries, including tourism. These developments may, in turn, foster private sector development and attract larger foreign investment flows. Recognising this, donors have once again made infrastructure a priority on the international development agenda. For example, infrastructure was a major issue at the September 2005 "UN Millennium plus 5 Summit", as well as a central theme of the March 2005 report by the Commission for Africa.

21. A concept developed in South Africa to describe the poor accessibility and mobility characteristics of the townships, "stranded mobility" connotes both the lack of adequate transport to service locations and the absence of adequate services in the township locations themselves. See Grieco, Margaret and Fiona Raje (2004), "Stranded mobility and the marginalisation of low income communities", presented at the conference on Urban Vulnerability and Network Failure, University of Salford, 29-30 April.

22. United Nations Millennium Development Goals Project, (2005), *op. cit.*.

Table 9 - **Transport Infrastructure and the MDGs**

MDG	Key target(s)	Role of transport
1. Eradicate extreme poverty and hunger	Reduce by half the proportion of people living on less than a dollar a day and suffering from hunger.	In Mali, during drought periods, food aid was distributed by plane, and concentrated in only a few areas. A new road (Sévaré-Gao road) linking the cereal production area to the dry north of the country has contributed to improve food security, facilitated mobility between the north and south, contributed to a reduction of staple food prices and ultimately increased national cohesion.
2. Achieve universal primary education	Ensure that all boys and girls complete a full course of primary schooling.	Pupils spend less time to reach school, as well as to collect water, fuel, and food, while high-calibre teachers are more likely to accept posts in rural areas. Furthermore, building materials for schools and education supplies can easily be available in rural areas.
3. Promote gender equality and empower women	Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015.	In Morocco, the presence of a paved road boosted school attendance rate from 21 per cent to 48 per cent for girls and from 58 per cent to 76 per cent for boys.
4. Reduce child mortality	Reduce by two thirds the mortality rate among children under five.	General supplies (especially food, and spare parts for water systems) can be sent to regional health centres.
5. Improve maternal health	Reduce by three quarters the maternal mortality ratio.	Faster hospitalisation of pregnant women.
6. Combat HIV/AIDS, malaria and other diseases	Halt and begin to reverse the spread of HIV/AIDS and the incidence of malaria and other major diseases.	Supplies (impregnated beds, nets, drugs, repellents, quinine, medicines and vaccines that require maintenance of the cold chain) and staff can reach remote locations; choice among alternative facilities becomes viable; transport and construction companies can introduce policies to prevent transmission of sexually-transmitted diseases by their employees and introduce voluntary counselling and testing in road yards.
7. Ensure environmental sustainability targets	Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources; reduce by half the proportion of people without sustainable access to safe drinking water; and achieve significant improvement in lives of at least 100 million slum dwellers, by 2020.	The use of unleaded fuel, measures to reduce pollution from vehicle emissions, careful road extension into forested regions and other actions can do much to reduce environmental risks.
8. Develop a global partnership for development	Various	The Sub-Saharan Africa Transport Policy Program (SSATP) is an international partnership to facilitate policy development and related capacity building in the transport sector of sub-Saharan Africa.

Source: African Union, UN Economic Commission for Africa and African Development Bank, in co-operation with the World Bank and the European Union (2005), *Transport and the Millennium Development Goals in Africa.*

The State of Play in Africa: Geography, History and Transport Infrastructure

The Role of Geography

Transport costs are one of the main factors explaining the location of economic activities, as highlighted in the economic geography and growth literatures.[23] Access to the sea and distance to major markets have a strong impact on shipping costs, which in turn influence success in manufactured exports and long-run economic growth.[24] Moreover, the very poorest regions in the world are those saddled with double handicaps of distance from sea trade and a tropical or desert ecology.[25] Because sea trade is cheaper than land- or air-based trade, economies near coastlines have a great advantage over hinterland economies. Halving a country's distance from all of its trading partners yields an increase of around 25 per cent in predicted income per capita.[26]

Due to drought, famine and political conflict, Africa's huge rural areas harbour the continent's greatest concentrations of hunger and poverty. The majority of the poor living in remote rural areas is largely employed in agricultural sector and has no access to basic transport infrastructure. All these issues are magnified by location. Empirical analysis highlights the correlation between country's location and related transport costs: access to the sea and distance to major markets have a strong impact on shipping costs which in turn influence success in manufactured exports and long-run economic growth. In Africa, geography is the first impediment to transport development: fifteen of the continent's 53 countries are landlocked and five are small islands.[27]

In inland areas far from coasts and navigable rivers and in the mountains, population densities are very low. Moreover, contrary to the case in Europe, in the developing world landlocked countries tend generally to have lower per capita income and human development indicators than their maritime neighbours. Their seaborne trade unavoidably depends on transit through other countries and on their transit policies, enterprises and facilities.

Least developed landlocked countries in Africa face higher transportation and insurance costs in international consignment than landlocked countries elsewhere in the world (Table 10). In Malawi, for instance, "the transit routes to the seaports are associated with obstacles ranging from the proliferation of transit documents, multiple insurance and bond requirements, delays at borders and within ports, inadequate infrastructure, excessive transit charges, pilferage, unacceptable practices and inefficient management of transit traffic"[28]. The 2003 Almaty Ministerial Conference was the first global event of the United Nations to address the special needs and problems of landlocked developing countries in order to integrate them effectively into the world economy by establishing efficient transit transport systems in both landlocked and transit developing countries (Box 5).

23. Pedersen, Poul Ove (2001), "Freight transport under globalisation and its impact on Africa", *Journal of Transport Geography*, Vol. 9, No. 2 , pp. 85-99.

24. Radelet, Steven and Jeffrey Sachs (1998), *Shipping Costs, Manufactured Exports, and Economic Growth*, presented at American Economic Association meeting, Harvard University.

25. Sachs, Jeffrey, Andrew D. Mellinger, and John L. Gallup (2001), "The Geography of Poverty and Wealth", *Scientific American*, March.

26. Redding, Steve and Anthony J. Venables (2004), "Economic Geography and International Inequality", *Journal of International Economics,* Vol. 62, No. 1: 53-82.

27. Respectively, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, Swaziland, Uganda, Zambia, and Zimbabwe; and Cape Verde, Comoros, Mauritius, São Tomé and Principe and Seychelles.

28. Statement by the Honorable Clement Stambuli at the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Co-operation, Amalty, 28-29 August 2003.

Table 10 - **Transport / Insurance Costs as percentage of Trade Values**

	SUB SAHARAN AFRICA			WORLD		
	Least Developed Landlocked Countries	**Landlocked Countries**	**Coastal Countries**	**All land locked Developing Countries**	**All Developing Countries**	**OECD Countries**
EXPORT	32	20	15	13	8	6
IMPORT	**25**	**21**	**10**	**7**	**5**	**3**

Sources: Faye, Michael L., John W. McArthur, Jeffrey D. Sachs and Thomas Snow (2004), "The Challenges Facing Landlocked Developing Countries", *Journal of Human Development*, Vol. 5, No. 1: 31-68 and UNCTAD (2003a), *Challenges and Opportunities for Further Improving the Transit Systems and Economic Development of Landlocked and Transit Developing Countries*, Document UNCTAD/LDC/2003/8, Geneva.

Box 5 - **Implementing the Almaty Programme of Action in Africa**

The special problems of landlocked developing countries require forging partnerships to overcome their lack of territorial access to the sea and their remoteness and isolation from world markets. The Economic Commission for Africa (ECA) has prepared a long-term development plan (2007 target date) including benchmarks, measurable indicators of achievement and assigned tasks. An action plan was also adopted during the Sub-Saharan Africa Transport Policy Programme meeting organised in Nairobi in February 2004, the purpose of which was to increase ownership of Regional Economic Communities and to meet their requirement in implementing the 2004 work programme. In October 2003, a total of $4.6 million was mobilised to fund transit transport facilitation and other activities.

Source: United Nations (2004), *Implementation of the Almaty Programme of Action*, document A/59/208.

The Development of Transport Infrastructure in Africa: a Historical Perspective

A large portion of transport infrastructure in Africa has it origins in the colonial era. Each colonial power established its own communication and transportation network centred on its homeland and operating in its own language. Most of the railways built in tropical Africa handled raw materials - the product of farms and mines. There were groundnuts and palm oil railways in West Africa, copper railways from Katanga and Rhodesia to the sea, and cotton railways in the Sudan and Uganda. Even when they were quite long (as from Katanga to South Africa), these lines served essentially one purpose; they were feeder lines for the shipping companies that transported the products of African soil to Europe.[29] Perpendicular to the coast and disconnected from each other, the current rail grid of the ECOWAS region exemplifies this pattern.

The consequence is that the transport circumstances of present day Africa – in terms of both infrastructure stock and geography – is the residue of many distinct communication and transport networks built a century ago.[30] African transportation monopolies and other public utilities became increasingly unable to satisfy customer demands, set tariffs well below cost-recovery levels, systematically underinvested in maintenance and in expanding the transportation networks, and their operating deficits widened relentlessly, contributing to fiscal imbalances. What investment was made, especially in roads, responded to the political need of broadcasting authority and enhancing the capital's

29. As the Commission for Africa (2005) notes, "setting a map of African railways alongside those of India is very revealing: India's railways link the sub-continent; Africa's merely link areas of extraction to the ports" (p. 27). From their construction at the beginning of the 20th century, most African railways have operated with a deficit (Zimbabwe is an exception).

30. "Across 33 African countries, about 70 per cent of the variance in road stocks in 1997 can be explained by what was present at independence" [Herbst, J. (2000), *States and Power in Africa: Comparative Lessons in Authority and Control*, Princeton, NJ: Princeton University Press, p. 164

reach to a large percentage of the population, rather than to careful analysis of social benefits and costs. During the 1970s, while the industrialised countries started shifting emphasis from centralised planning to local economic development, in Africa the focus of import-substitution interventions were on self-reliance; local rural development and long-distance transport was generally downgraded both in the national plans and in the rural development programmes; few new long-distance roads were built and maintenance was neglected[31]. Policies either discriminated against long-term investment in transport infrastructure – in particular through taxes and price controls on agricultural goods – or made it unviable to commit resources in this area – especially insofar as exchange rate and licensing policies were restrictive and inconvenient.

By the mid-1980s, in many countries the transport infrastructure had deteriorated to the point of being worse than it had ever been. Even when investment in modern transport infrastructure and equipment had been made, basic management principles – clear description of objectives and areas of authority and responsibility, accountability and control, adequate rules and regulations, good statistical and information systems, analytical accounting and cost control, quality control, human resource development –were often lacking.[32]

The Adequacy of Different Transport Modes

The weakness of Africa's transport infrastructure in each of the principal modes is striking when compared with other developing countries, especially for Sub-Saharan Africa (Table 11). For instance, while sub-Saharan Africa accounts for 17 per cent of the population and 7 per cent of the GDP of developing countries, its weight in both air transport passenger flows and rail is only 3 per cent. However, transport infrastructure in North Africa *vis-à vis* all developing countries appears relatively well developed and sea transport is, in fact, well developed, even compared with world levels.

Where the relative importance of different transport modes is concerned, railways have been steadily losing regional and domestic market share to road haulers. The

Table 11 - **Africa and the World of Transport** Some statistics (2004, unless otherwise specified)

	North Africa		Sub-Saharan Africa	
	% world total	% developing countries	% world total	% developing countries
Population	2.28	3.28	11.74	16.88
GDP	2.04	12.36	1.20	7.29
Trade	0.88	2.43	1.43	3.99
Air transport (f)	n.a.	n.a.	1.80[a]	n.a.
Air transport (p)	n.a.	n.a.	1.89[a]	n.a.
Rail transport[b]	0.18	0.33	1.68	3.19
Road transport[c]	n.a.	n.a.	7.60	23.97
Sea transport	10.44	25.53	7.53	18.41

a) All of Africa. b) 2003. c) 2002.

31. As Alila *et al.* (2005) note, "plans for rural roads were sometimes included, but few new long-distance roads were built and due to lack of funds for maintenance, long-distance transport was often left to decay."

32. According to a UNCTAD survey carried out in four African countries (Côte d'Ivoire, Ethiopia, Kenya and Senegal) cited in Haralambides, H.E., Ma, S. and Veenstra, A.W. (1997), "Worldwide Experiences of Port Reform", in H. Meersman and E. v.d. Voorde (eds.), *Transforming the Port and Transportation Business*, Acco Publishing, Leuven.

reasons for this are numerous and range from a substandard quality of service, lack of sophisticated computer technology and transport logistics, a shortage of commercial know-how, and gross under-funding of maintenance and provision of new infrastructure and security. Rail passenger transport is haphazard and service standards low. In South Africa, the government has estimated the current maintenance backlog for commuter rail in the region of R15 billion, which compares to some R4 billion per annum which was invested in transport infrastructure, covering road, rail and buses, since 2001.

Out of a total Sub-Saharan Africa road network equal to 1.5 million km, only 19 per cent is paved, compared to 27 per cent in Latin America and 43 per cent in South Asia. The majority of the road network consists of dirt roads. Paved road quality has been severely affected by systematic axle overloading of trucks and poor water drainage, resulting in widespread potholes and increasing road accidents. As the reliability of dirt roads remains vulnerable to weather conditions, mobility is reduced and the consequences of the food crisis, especially in rural areas, are exacerbated. Internal waterways are also scarcely exploited – the Ugandan portion of the Nile, for instance, which was a busy waterway in colonial days, has no traffic today, despite the absence of water hyacinths and heavy congestion on alternative road corridors.

For long-distance traffic, geography makes air transport relatively more important than in other regions. Only airports in Egypt, Cape Verde, Ethiopia, Morocco, Ghana and South Africa have attained FAA Category I, which is a standard, required for facilitation of international flights. In air transport, in 2004 African carriers achieved a rate of 5.2 hull losses per million sectors.[33] This is some progress compared to a 10-year average of 10.84 hull losses per million sectors, but it is still 6.6 times worse than the global average. Africa — a region that accounts for only 4.5 per cent of global traffic —accounted for 25 per cent of the accidents in 2004.

The state of African ports is equally serious (UNCTAD 2005*c*). In an industry that is dominated by a few players – Hutchison, P&O, PSA, DPA, and CSX World Terminals – that manage a global network of port facilities known for their efficiency, only one African port is owned by any of these five companies.[34] Most container terminals are reaching or have reached capacity limits (be they year-round or seasonal): Durban has had a congestion surcharge imposed by shipping lines for 2 years, yard saturation in Dar-Es-Salaam is affecting productivity, Mombassa is operating above design capacity, and Djibouti and Mauritius have experienced problems linked to the explosion of transhipment traffic.[35]

Consequences: Heavy Poverty Toll and Hindrance to Economic Performance

The World Bank's Sustainable Access to Rural Transport indicator measures the proportion of rural people who live within two kilometres of an "all-season road'[36]. The (unweighted) average for 15 sub-Saharan African countries for which such indicators are available is 37 per cent.[37] For comparative purposes, the indicator equals 43 per cent for all 24 IDA-only countries (including those from other regions) that were covered in the first round of the data collection effort and 94 per cent for eight IBRD borrowing countries which were also covered in that round.

33. Giovanni Bisignani, Director General and CEO, IATA, Address to AFRAA, Sun City, South Africa, 14 November 2005.

34. In the case of liner services, Africa has been long left largely to the specialist operators. In a few short years this has changed dramatically as companies like OTAL, Safmarine and Torm Line have been acquired by global giants such as Bolloré or AP Moller.

35. UNCTAD (2005), *Review of Maritime Transport.*

36. One that is motorable all year round by the prevailing means of rural transport, even though it may be temporarily closed periodically, for instance after heavy rains.

37. African Union, UN Economic Commission for Africa, ADfB, and World Bank (2005), T*ransport and Millennium Development Goals in Africa*, page 16.

One of the important consequences of such limited access is that the rural poor spend quite considerable and wholly unproductive time to meet their everyday needs – collecting water, obtaining fuel, getting to the school, the clinic, the grinding mill or the market. Surveys of rural travel and transport patterns in villages in Burkina Faso, Uganda, and Zambia have found that African women move, on average, usually via head-loading, 26 metric ton-kms a year (especially water and fuel wood), compared with less than 7 metric ton-kms for men.[38] This, combined with women's contribution to agriculture, has led to estimates that women contribute about 2/3 of the total rural transport effort. Another recent survey revealed that typically around 60 per cent of households in the bottom two income-quintiles find distance to health services a major obstacle to using them, exacerbated in some countries by difficulties in securing transport.[39] In this sense, inaccessibility has become a byword for isolation, one of the five core dimensions of poverty.[40]

The availability and quality of road infrastructure can also influence food prices. Survey data collected from itinerant traders in Kinshasa show that transportation costs, which in turn are a function of road quality (transportation costs were on average two times greater on dirt roads than on paved roads), are the main causes of food price variation.[41]

In urban areas, poor transport infrastructure hinders the full realisation of the dynamic gains from clustering and agglomeration that have underlined the long-term process of urbanisation in the rest of the world, including both OECD countries and large emerging economies such as Brazil, China, and India. Due to natural increase of population and migration from rural regions, the population of Sub-Saharan Africa's major urban areas has been growing up at an extremely fast rate, around 4-5 per cent per year. Unfortunately, inadequate and ill-maintained local infrastructures prevent large parts of the population from participating in the modern economy.[42] To provide just an example, in Dar es Salaam major deficiencies in urban transportation systems reinforce patterns of social and urban segregation linked to inadequate housing[43]. The daily purchase of a single roundtrip minibus ticket amounts to 10 per cent of total expenditure by a household in the lowest income quintile and to 5 per cent for the next quintile. Consequently, the poorest individuals tend to remain in their neighbourhoods with adverse consequences for the development of human and social capital, access to economic opportunities, poverty alleviation, and social exclusion. In Cairo, the poorer tend to use more expensive transport modes and spend a higher proportion of their income on transport. Even if the bus fare has been subsidised for political reasons, public transport services are badly organised while providing responsive public transport services to low-income areas has received scarce consideration.

Another domain where high export transport costs hinder the development of Africa is foreign trade.

38. Gelb, Alan (2001), "Gender and Growth: Africa's Missed Potential", *Development Outreach,* Spring.

39. African Union, UN Economic Mission for Africa, ADfB, and World Bank (2005), *Transport and Millennium Development Goals in Africa,* page 2.

40. Edmonds, G. (1998), *Wasted Time: The Price of Poor Access*, Development Policies Department, International Labour Office, Geneva (www.ilo.org/public/english/employment/recon/eiip/publ/1998/ratp3/).

41. Minten, Bart and Steve Kyle (1999), "The effects of distance and road quality on food collection, marketing margins, and traders' wages: Evidence from former Zaire", *Journal of Development Economics*, Vol. 60: 467–495.

42. In 2001, around 166 million people, 72 per cent of the region's total urban population, which has the same ratio of 1990, were estimated to be living in slums. The proportions of the urban populations living in slums in other parts of the world are much lower and have, in almost all cases, dropped since 1990. See UN-Habitat (2004), *Dialogue on the urban poor: improving the lives of slum-dwellers*, prepared for the World Urban Forum, Barcelona.

43. Diaz Olvera, Lourdes, Didier Plat, and Pascal Pochet (2003), "Transportation conditions and access to services in a context of urban sprawl and deregulation: the case of Dar es Salaam", *Transport Policy*, vol. 10, no. 3, pp. 287–298.

Although African exporters face significant barriers, they also enjoy important OECD tariff preferences that provide significant competitive advantages over similar goods shipped from other countries. Sub-Saharan Africa's poor trade performance is significantly explained by relatively high transportation costs – especially for processed products.[44] Nominal freight rates on African exports are normally considerably higher than those on similar goods shipped from outside the region.[45] In 1990, for example, net freight payments to foreign nationals absorbed 15 per cent of Africa's export earnings (versus 11 per cent in 1970). For landlocked African countries, the freight cost ratio exceeds 30 per cent, as exports must transit neighbouring territories. In Africa total freight costs are a much higher proportion of import value than in other developing countries in the world – 12.65 per cent and 8.7 per cent, respectively.[46]

In the case of South Africa, transport is one of the main explanatory factors for the differential manufacturing export performance among administrative districts over the period 1996 to 2000.[47] Poor infrastructure has also a negative impact on domestic trade. In Mozambique, for instance, the lack of north-south transport links makes the cost of trucking a 22–24 ton container from Maputo to the north (Pemba) nearly 2.5 times as high as that of shipping the same container from Dubai or Guangzhou to Maputo.

Finally, mention must be made of the increasing cost, including in terms of human life and lost output, of the lack of safety of all transport modes in Africa. Globally, road accidents rank second among the leading causes of death in young adults, according to WHO, which reported recently that crashes kill 1.2 million people per year around the world and injure an estimated 20 million to 50 million more. About 10 per cent of global road deaths occurred in sub-Saharan Africa in 1999, even though the region only had about 4 per cent of the world's registered vehicles. One study estimated the total road deaths in the region as numbering up to 82 200 in 2002. Pedestrians and passengers – as opposed to drivers – are most often affected, accounting for 80 per cent of all road deaths in sub-Saharan Africa. By comparison, non-drivers account for less than 13 per cent of all road deaths in industrial countries.

Looking Ahead: What Roles for Government, the Private Sector and the International Community?

Policy makers in Africa, with the support of the international community, can draw on the lessons of foreign experience to find the resources needed to fill the continent's infrastructure gap. International experience has indeed shown that, when combined with better commitment to regulation, increased private sector participation in infrastructure (including, but not limited to, privatisation) can help achieve access, affordability, quality and fiscal cost targets much more than reforms considered in isolation. In principle, the government's role can then be focused on planning, safety, security, competition, and regulation. In practice, markets are unlikely to supply all the resources that are required and donors must provide substantial financial and technical support. Moreover, possibly even more than in other policy domains in infrastructure, regional integration initiatives can play an important role.

Private Sector Participation in Transport Infrastructure

The generally poor performance of state-owned monopolies, the need to finance network development

44. Amjadi, Azita and Alexander J. Yeats (1995), "Have transport costs contributed to the relative decline of Sub-Saharan African exports? Some preliminary empirical evidence", The World Bank, *Policy Research Working Paper*, No. 1559, Washington.

45. These charges often incorporate very high rates of effective transport protection against Africa – a point that significantly reduces incentives for investment and the location of export-oriented industries in the region.

46. UNCTAD (2003b), *Review of Maritime Transport*, p. 116.

47. Naudé, W. A., W. F. Krugell and T. Gries (2005), "The new economic geography: empirical evidence from South Africa", prepared for the Regional Studies Association's International Conference, *Regional Growth Agendas*, University of Aalborg, Aalborg, Denmark, 28 – 31 May.

and maintenance of inland transport infrastructure, combined with the rapid globalisation of the world economy and examples from other regions, have prompted a growing number of African countries to seek private-sector participation in the provision of transport infrastructure and related services. However, there are very few examples of complete or partial privatisation – i.e., transfer of ownership and control over physical assets – although there are some in transport service providers, such as airlines. With a privatisation transaction, all risk and all reward is shifted to the private owner. The problem is, indeed, with the levels of risk, which, in Africa, is generally perceived to be too high, and the returns are perceived to be too low. The main reason for this is to be found in the special nature of the sector: the high level of investment and the long-term engagement needed versus the volatility of the political climate.

Experiments with various forms of public-private partnerships have been implemented, especially in airports, ports, and railways (see table A1). In the case of roads, the examples are far fewer (see below). However, the scope for significantly scaling up the size and scope of private investment in African transport infrastructure may be limited, due to both the technical and economic characteristics of transport, and the high price elasticity of demand of low-income African users. This situation suggest a continued need for higher levels of public investment in transport infrastructure supported by additional effort on the part of the international community accompanied by technical support to improve transportation planning.

The bulk of private participation in transport infrastructure, especially in railways, has taken the form of a lease or concession, based on a contract that lays down clear rules by which both the regulator and the operator agree to share risk. In fact, transport infrastructure also displays very specific features in terms of organisation. Owing to the existence of economies of scale and scope and to the size of sunk costs, transport infrastructure is a natural monopoly. This makes the potential distributional impacts of their privatisation of great concern to users of transportation services. On the one hand, efficient regulation is needed to ensure that private profit-maximising investors do not abuse their market power in the setting of tariffs, levels of service, access conditions, maintenance, and investment in expanding capacity. On the other hand, it is now recognised that transport infrastructure can be more efficiently utilised when transportation services are supplied under competitive conditions. This "operating" part is potentially the most profitable and as such it can be "unbundled" and easily divested, while fixed infrastructure, which traditionally requires large-scale investment, remains state-owned.

Private Participation in Airports

In Africa, the private sector plays an increasingly important and successful role in the management of airfield, gates, jet-ways, and all facilities associated with the movement of aircraft, and in "landside" services (i.e. the facilities associated with the movement of passengers and baggage away from aircraft areas such as passenger services, food and beverage concessions, duty free, car parking, etc.).[48] Complete privatisation has not been attempted. The most far-reaching deal was the partial privatisation of the Airports Company of South Africa (ACSA), although in September 2005 Aeroporti di Roma (AdR) agreed to sell back its stake to the Public Investment Corporation for ZAR1.675 billion (Box 6).

The experience with other methods, such as concessions and/or management support, is more recent. In Algeria, Aeroports de Paris (AdP) has signed a management contract for technical assistance in developing a new terminal at Algiers Airport; in Nigeria, the National Council on Privatisation has solicited expressions of interest from the private sector to operate Nnamdi Azikiwe International Airport in Abuja under a 25-35 year concession.

48. We do not cover air navigational services, where public sector responsibility remains dominant (because of statutory monopoly, security concerns and threats, and poor understanding, let alone specification, of deliverables). There are however, at least in OECD countries, examples of corporatisation, introduction of cost recovery systems, and privatisation (Canada, UK and Germany).

Box 6 - Partial Airport Privatisation in South Africa

The Airports Company of South Africa (ACSA) is responsible for the country's nine principal airports, including the three gateways of Johannesburg, Cape Town and Durban and Pilanesberg International Airport near Sun City in the North-West Province (a deal signed in 1998). ACSA and Transnet became limited liability companies in 1993. In 1998, the Italian airport operator AdR bought a 20 per cent stake. It was expected that ACSA would list on the Johannesburg Stock Exchange before 2003, but further privatisation was delayed by the collapse of the Rand and financial crises in other parts of the world. In October 2005, AdR sold its shareholding to South Africa's Public Investment Corporation (PIC), on behalf of the Government Employees Pension Fund. PIC paid ZAR 1.675 billion and AdR pocketed a profit on the deal of around ZAR 500 million.

In many ways ACSA has been a model corporative organisation. Revenues increased 5.3 per cent to ZAR 1.9 billion as the company diversified revenues away from aeronautical sources towards retail activities, which now account for over 45 per cent of its income, more in line with European and US standards. Under a Master Plan (1994) intended to guide the regeneration of each airport until 2030, considerable expenses were incurred on some of the airports with the proviso that each should be able to finance the costs of its own development. A ZAR 2 billion project at Cape Town International Airport will increase capacity to 12 million passengers by 2015 and a second runway is under construction. Johannesburg International (JIA) has been the focus of most of the recent investment. As the hub airport for all of southern Africa, it hosts over 13 million passengers annually and contributes 70 per cent of ACSA's profits. A high-speed rail link known as Gautrain is planned to operate between JIA and the cities of Johannesburg and Pretoria. ACSA has also dealt positively with black economic empowerment issues.

Source: Bentley, David J. (2006), *Global Airport Privatisation*, Centre for Asia Pacific Aviation, Sydney.

Private Participation in Railways

In railways, thirteen systems have been converted into concessions since 1993. Another seven deals are in progress.[49] The vicissitudes have been extreme – two concessions have been cancelled, one railway has been badly affected by war and one has suffered from natural disasters and procedural delays. The results in terms of throughput, productive and allocative efficiency, investment, and quality of service are encouraging, however. In the case of the CAMRAIL concession in Cameroon, for instance, Bolloré promised to invest about CFA65bn in 1999-2004, jointly with bilateral and multilateral donors, in order to restructure a deteriorated network and replenish the rolling stock. However, in this as well as in other programmes of rehabilitation of transport infrastructure, in general "investment has largely been funded by multilateral and bilateral loans at concessional rates (and often after substantial delays); there has been only been comparatively minor investment from other sources. Overall, concessioning in Africa has revitalised many systems but it is doubtful whether it can ensure their long-term survival without further injections of public investments".[50] As highlighted in Boxes 7 and 8, most of the problems related to the concessions have been due to the inadequacy of the regulatory frameworks.

Box 7 - Zambia Railways: Poor Regulation of Concessions

In 2003, a 20 years concession was granted to New Limpopo Bridge Projects Investments (NLPI) and Spoornet to manage Zambia Railways Limited (ZRL), - a total single track of 1 266 km that runs from the border with Zimbabwe at Livingstone to the border with DRC. An inadequate agreement for the concession resulted in a deterioration of the railways. In particular, an expert review concluded that the level of investment in maintenance as specified in the Agreement was too low for a railway line of this length; moreover, only 65 per cent of concession fees owed to the government has been paid, citing a declaration of a change in circumstances. A positive outcome was a reduction in the number of derailments from 400 to 200 per year (the regional accepted level is 20); however, the level of maintenance remains very poor and rail volumes declined by 7 per cent in one year with most of this decline reflecting a shift to road transport. In November 2005, the parliament approved a motion calling on government to urgently review the agreement.

49. Bullock, Richard (2005), "Results of Railway Privatization in Africa", The World Bank Group, *Transport Papers*, No. 8.

50. *Ibid*.

Box 8 - The Cancellation of the Maputo – South African Concession

In 2002, the Mozambique government granted South Africa's rail utility Spoornet and its consortium partner, New Limpopo Bridge Project Investments (NLPI) the operating rights for the railway line from Maputo to Ressano Garcia, on the border with South Africa. An important component of the concession agreement was the commitment to invest $10 million in upgrading the lines, bringing the Mozambique section up to South African standards. However, the consortium did not take over management of the line or invest in its rehabilitation, mainly owing to a dispute between Spoornet and NLPI. The cargo shipments from South Africa to Maputo are falling short of the levels envisaged in the agreement, as cargo is being diverted to Durban. Consequently, the government cancelled the lease in 2005, and the Mozambican port and rail company CFM will rehabilitate the Maputo-South Africa line in 2006.

The most recent privatisation deal, for Kenya Railways Corporation (KRC), illustrates both the possibilities and the difficulties of opening African railways to private-sector participation. In October 2005, Rift Valley Railways, a consortium led by South Africa's Sheltam Trade Close, a rail, marine and mining conglomerate, beat off a bid from Rail India Technical and Economic Services (RITES) to acquire KRC, which includes the line linking Nairobi and Kampala.[51] The contract was signed in January 2006. Out of 9 219 KRC workers, up to 3 700 will be laid off. The Government has received a $70.1 million grant from the World Bank to finance the layoffs and launch the proposed Kenya Railways Retirees and Pensions Scheme. The grant will also finance the relocation of the people occupying the railway reserves. Although the investors are expected to take over management by mid-June 2006, the concessioning has been slowed down by a High Court injunction in December 2005 to freeze the process until a case advanced by the Kenya Railways Pensioners Association is heard and adjudicated. This order, among other things, restrained the KRC, its agents and each party acting on its behalf from signing the transfer agreement and delivering the possession of its assets and operations to Rift Valley Railways. The order is to remain in force until the firm sets aside KSh 6 billion worth of assets to cover accrued pensions benefits.

Private Participation in Ports

Private-sector involvement in ports can take various forms ranging from the mere ownership of the land and basic infrastructure (landlord ports) to the provision of all port-related services (service ports). Mozambique led the way: management of several container terminals at the Beira Port was privatised to Dutch firm Cornelder several years ago and numerous facilities upgrades, dredging, and other improvements in port services have taken place. The facilities at the Maputo port were privatised in April 2003. The Maputo Port Development Corporation (MPDC), a private consortium run by Mersey Docks (Britain), Skanska (Sweden), and Tertir (Portugal), earmarked $67 million in upgrades for the port on a 15-year management concession (extendable up to 10 years) and large-scale dredging in the Maputo harbour was completed ahead of schedule. Major South African exporters are already using Maputo port instead of the more distant and more congested ports of Durban and Cape Town.

The privatisation of Dar es Salaam's container terminal has similarly been hailed as one of the most successful of its type in the world. In September 2000, Tanzania International Container Terminal Services (TICTS), a company backed by the Hong Kong-based Hutchison Whampoa, was granted a 10-year lease. In 2001-02 alone, $7 million was invested to equip the terminal with four gantry cranes as well a state-of-the-art computer system. The workforce, which has fallen from more than 600 to around 400, has been retrained and corruption has been all but eradicated. The number of ships visiting Dar es Salaam has increased from 30 to 50 a month and the number of containers shifted from 100,000 to 165,000 per year. At 22 containers an hour,

51. Sheltam offered to pay an annual fee of $5 million, the base requirement, plus 1 per cent of revenues and $1 million to run the ramshackle commuter rail lines at Nairobi. The investors will own up to 35 per cent stake with Kenyan and Ugandan firms and nationals taking 65 per cent. Other bidders were Comasar (also South African), NLPI Private (Mauritius), Canac (Canada) and China Railway First Group

productivity is almost three times as high as in Mombassa in Kenya.[52]

Where privatisation has been accompanied by competition among service providers, cargo-handling costs have fallen. For example, in Dakar, Abidjan and Douala charges are between $60-75 per 20ft container, but in Lagos – where privatisation has been discussed off and on for more than ten years and is only now showing signs of progress – the cost is $200.[53] Nonetheless, by the end of 2002, only eight sub-Saharan Africa countries had leased out their port equipment.[54] At less than 10 per cent, private participation in Africa's container handling capacity is still very low compared with a worldwide average of 75 per cent.[55]

Private Participation in Roads

Build-operate-transfer (BOT) is the commonest scheme for financing new bridges and roads. The private sector obtains the capital needed for construction, builds and operates the infrastructure for a determined period of time (between 15 and 30 years), and then transfers ownership to the relevant government. A successful example of BOT concession in road is the 503 km highway linking Maputo and Witbank in South Africa. The toll road is currently operating successfully and benefits from substantial traffic to and from the Mozal smelter (see Box 9).

Managing Risks in Infrastructure Projects

All around the world, infrastructure projects are plagued by serious problems, and while the private sector can usually bear construction, operating, and maintenance cost risks, neither firm nor government may have much influence on price and demand risks (Table 12). If the problems are not unique to Africa, however, the situation is arguably more severe there than in other developing regions. For this reason, what has

Box 9 - Lessons Learned from the South Africa- Mozambique Toll Road

The governments of Mozambique and South Africa signed a Rand 3 billion, 30-year concession in 1996 with a private consortium, Trans-African Concessions (TRAC), to build and operate the N4 toll road from Witbank to Maputo. Since the road was completed in 2000, traffic has been increasing at a rate of about six per cent a year. The high volumes of traffic averaging about 60 000 vehicles daily, originates primarily from the Mozal smelter and the industrial parks. The road facilitated further private-sector investment in Mozambique and helped to increase tourism in the region, leading in turn to further increases in traffic.

The success of the project stems also from its financing, such that the commercial risk was shared by a wide range of investors. The toll road was financed with 20 per cent equity and 80 per cent debt. Three construction companies contributed R331 million worth of equity with the rest of the capital provided by many investors. The lenders include South Africa's four major banks and the Development Bank of Southern Africa. The governments of South Africa and Mozambique jointly guaranteed the debt of TRAC and, under certain conditions, the equity as well. At the time, it was the biggest project finance deal in Southern Africa.

In order to reduce the burden on low-income Mozambique, TRAC subsidised the Mozambican portion of the road with the higher revenues on the South African side, and also provided substantial discounts to regular Mozambican users. The toll varies according to the size of vehicles. The substantial benefits for trucks include: the avoidance of border tax for vehicles entering Mozambique at Ressano Garcia, 24–hour roadside assistance through TRAC patrols, improved road conditions and regular road maintenance.

The main problem for the concession holder is damage to the road as the concession agreement did not specify regulations on truck loads. At the beginning of 2004, TRAC began to assist both the South African and Mozambican governments in establishing axle load control measures. The percentage of overloaded vehicles has already fallen from 23 per cent in 2001 to 9 per cent in 2004.

52. "Tanzanian port has big aspirations", BBC News, 1 April 2003.

53. "The scramble for Africa", *Port Strategy*, June 2003.

54. UNCTAD (2003c), "African ports: reform and the role of the private sector", UNCTAD/SDTE/TLB/5.

55. Paul van Eulem, Maritime & Transport Business Solutions (MTBS), 2nd Intermodal Africa Conference, Cape Town, 5-6 February 2004.

worked in, say, Latin America is not assured to fit the reality of Africa. If the government controls the toll, it probably benefits from bearing price risk. Who can then best forecast and anticipate demand to determine whether to build a transport infrastructure? Who can best absorb the risk?

Risk allocation is at the heart of how PPPs are structured. PPPs allow better risk allocation since PPPs are procured as services, and not assets, and the focus is on outputs and not on inputs. Yet, recent OECD-CEMT research suggests that despite decades of experience, PPPs still often experience difficulties.

Table 12 - A Typology of Risks in Infrastructure Projects

Contractual risk (contract frustration / grantor's default)	• Tariff adjustment • Early termination • Regulatory framework
Operational risk	• Existing commercial contracts • Lack of expertise • Employee relations • Access to airports
Land acquisition	• Timing and cost
Traffic risk – volume, nature, demand for services	• Severe political conflict • Severe economic downturn • Crisis • Technology change

Source: Unterrainer, Maria (2006), "Approaches to Infrastructure Financing in OECD Countries and Major non-OECD", prepared for the second meeting of the Steering Group of the OECD Futures Project on Global Infrastructure Needs.

Separating regulatory, financial and contracting processes from one another has been found to meet overall project requirements best, including protecting the public interest and providing adequate incentives to private-sector partners.[56] Matters that distinguish success or failure include: the proportions of equity and borrowing in infrastructure projects; legal and financial issues including the distribution of project risks; incentives for efficient construction and operation; and processes for ensuring an adequate degree of co-operation between the public and private sectors. Different factors that impact on the economic viability of off-budget financing include the economic characteristics of the infrastructure facilities (e.g. single project, local or regional road/railway, network, etc.) and the overall financial viability of the project. In particular, if revenue streams are not sufficiently large and predictable to attract financing through capital markets, alternative approaches (e.g. the use of networks to fund extensions and improvements) may be needed to improve financial viability. Other important recent findings are: *a)* that size matters (for instance in the case of ports $100 million is seen as the minimum threshold per deal), *b)* that the process to produce long-term "win-win" deals is long – up to 18 months – and complex, *c)* that in each case a "tailor-made" design is required; and *d)* that, in any event, renegotiation is likely and should be anticipated.

Ultimately, there are only two sources of funding – the user or the taxpayer. Important innovations in road network funding seen in some countries (New Zealand, Austria, Japan, etc.) are characterised by a continuing government involvement in the form of road funding agencies and state corporations. In Africa as in other developing regions, "second-generation" road funds that are financed by charges on transport users, such as fuel levies and managed by boards which include representatives of road users have been created to avoid under-funding and inadequate road maintenance (Box 10).

In sum, private participation does not mean the withdrawal of the state. On the contrary, strong institutional capacity must exist to introduce and implement adequate regulation and ensure that contracts

56. CEMT (Conférence Européenne des Ministres des Transports) (2005), *Working Group on Transport Infrastructure Investment: Funding Future Infrastructure Needs.*

Box 10 - Second-generation Road Funds in Africa

Many countries around the world responded to the growing shortage of finance by attempting to earmark selected road related taxes and charges and depositing them into a special off-budget account, or road fund, to support spending on roads, mainly for maintenance. The performance of such funds had, however, been mixed, and generally quite poor. Some of the common problems cited were: poor financial management; absence of independent audits; extensive use of funds for unauthorised expenditures; diversion of funds; and weak oversight. As a result, most of these earlier road funds, sometimes known as "first generation" road funds, have actually been closed down.

Second generation road funds – involving direct payment of a levy on fuel tax and other revenues directly to a fund managed by a board including representatives of road users – have been seen as a major policy tool to avoid the perennial problems of systematic under-funding and inefficient execution in the road sector. In sub-Saharan Africa, 26 road funds are in place - of which 9 have been established since 2000. Although hardly any of them fully satisfies the criteria of second-generation funds, about half of them are steadily moving towards the characteristics of such funds. 23 road funds have management boards - of which 13 with private sector majority - 13 road funds rely 90 per cent or more on user charges as revenues. In nearly all cases, a fuel levy is the principal means of raising road user charges.

Despite fears that road funds may have damaging effects on fiscal flexibility, in practice they have helped to improve the process of administration of road funding and its outputs in terms of execution capability and ultimately road condition. Nonetheless, only about one third of road funds may now be meeting routine maintenance expenditure needs on a regular basis. In the establishment of new funds the role of government in respect of approving levels of revenue for expenditure on road maintenance programs should be explicitly recognised.

Source: Gwilliam, Kenneth M. and Ajay Kumar (2003), "Road Funds Revisited: A Preliminary Appraisal of the Effectiveness of "Second Generation" Road Funds", *The World Bank Research Observer*, Vol. 18, No. 1, pp. 113-128 and World Bank (2004), RMI MATRIX: *Policy Reform Status by Country*, 24 August.

between the government and the private sector are enforced.

Strengthening Regulation

Infrastructure is a public good - in the sense that it generates consumption externalities and once it is provided it is difficult to exclude people who do not pay from using it. It is a well-known lesson from more than two decades of transport infrastructure reforms that the risk of creating private monopolies arising from economies of scale and scope may limit the potential efficiency gains deriving from private participation. In the case of terminal operations, however, it is normally the case in developed countries that the large size of the market and the competition with adequate nearby national and foreign ports restrains the exercise of monopoly power at the local level. However, this is not the case in developing countries with low cargo volumes, remote countries that only serve natural hinterlands, and end ports on the north-south routes that are not located on existing major shipping networks. In addition, profit maximising behaviour may lead private investors to keep investment below optimal levels.

In order to increase consumer access, improve quality, and maximise the positive impact of private participation on welfare and ultimately the poor, an appropriate regulatory framework is necessary, one that is sound but does not unduly hinder entrepreneurship. Key factors include strong government commitment to ensure the credibility of the reform; proper sequencing of the process; and the creation of an independent and well-enforced regulatory body prior to divestiture. As proven by the example of Peru, even in developing countries economic theory can provide ammunition to improve policy regulation (Box 11).

In the road sector, the transfer of management from an ill-staffed and ill-equipped ministry to an autonomous road agency with quick contracting capacity and free from political interference is seen as an important improvement.[57] Unfortunately, so far only 38 per cent of

57. Estache, Antonio (2005), *What do we know about sub-Saharan African infrastructure?* mimeo, World Bank, p. 12.

Box 11 - Using Economic Theory Instruments to Improve Policy Regulation: An example from Peru

The Peruvian regulator for the public transportation infrastructure (OSITRAN) introduced an access regime to make competition viable for services that use, as input, transport infrastructure controlled by a monopolist. It is based on two theoretical contributions and minimises the government intervention risk. Both port operators and providers of port services now have incentives to negotiate conditions of access, which permit competition, or to compete for an exclusivity right when this is desirable. If the parties do not reach an agreement within a reasonable time, OSITRAN can enact an access mandate that may punish any of the parties, creating incentives for them to reach equilibrium. The model seems to be generating productive and allocative efficiencies in port services, thus contributing to a potential reduction in Peru's maritime transport costs.

Source: Flor, L. and Enzo Defilippi (2003), "Port Infrastructure: An Access Model for the Essential Facility", *Maritime Economics & Logistics*, Vol. 5, No. 2: 116-132.

the countries, members of the SSATP programme, have established such agencies. In landlocked countries, the introduction of road agencies has generally been associated with improvements in road density while in coastal countries the adoption of a road agency is correlated with a marginally reduction in road density. In both coastal and landlocked countries, road agencies are associated with improvements in the quality of networks.

Box 12 - Zambia: Three New Road Agencies to Spur Transport Rehabilitation

As part of a broad strategy to rehabilitate major trunk and feeder road and removing missing links with the region, the government of Zambia has reformed the governance structure of the road sector. In the past blurred responsibilities among road management agencies, a poor regulatory framework, which negatively affects private contractors, and limited and erratic budgetary transfers to the appropriate local authorities, contributed to the poor road maintenance track record.

With a view to clarifying the management and financing of the core network, three road agencies, namely, the National Road Development Agency (NRDA), the National Road Fund Agency (NRFA), and the Road Transport and Safety Agency (RTSA), have been created and became operational in 2005. Under the new configuration, NRDA is responsible for planning, procurement, supervision and monitoring of the whole road network, centralising functions that were previously fragmented among various line Ministries. Similarly, the NRFA co-ordinates all the resources for the road sector, including government, donor funding and user charges. Accordingly, the fuel levy for routine maintenance is now channelled directly to the NRFA, avoiding slippages and erratic funds flows, caused by its previous inclusion in the overall government budget. The RTSA is responsible for transport licensing, traffic safety and axle load control. Interestingly, the NRFA has embarked on an Axle Load Control Programme. The main objective of the programme is to improve and establish a more sufficient and effective Axle Load Control mechanism on Zambian Roads. Computerised mobile weighbridges and bill boards have been installed on all critical points on the road network so as to give out information to the travelling public of the consequences of overloading.

In tandem with institutional reforms, substantial donor support has been granted to the Road Sector Investment Programme (ROADSIP) since 1997. Against a background of progressive phasing-out of donor support for road maintenance and expansion – it is expected to end altogether in 2013; the government is preparing a financial strategy to generate adequate revenues for the NRFA through the adjustment of the fuel levy and the introduction of additional user charges.

In addition, the authorities are working on ways to attract private-sector participation in road construction through public private partnerships (PPP). So far, private-sector interest has been weak, discouraged by an inadequate regulatory framework. In early 2005, a process was begun to establish a policy with clear guidelines for investors, to review and strengthen the legal framework, and to increase the capacity of both public and private players in managing and administering PPPs in transport infrastructure, drawing on the successful experience of neighbouring South Africa and Tanzania.

In parallel, the National Council for Construction is promoting certification for contractors and an action plan to strengthen the local road construction industry. The introduction of toll roads is considered a long-term option since such a step would need to comply with the SADC stipulation that an alternative road be provided free of charge.

Table 13 - Efficient Regulation and Infrastructure Investment

	Shares of sample (percentage of total sample size for each country grouping given in parenthesis)			
	Africa	Low income	Lower-middle income	Upper-middle income
		Transport – railways		
Independent Regulatory Agencies	3 (31)	2 (41)	8 (38)	19 (21)
Private Participation	48 (31)	34 (41)	26 (38)	60 (20)
		Transport – ports		
Independent Regulatory Agencies	22 (23)	n.a.	n.a.	n.a.
Private Participation	57 (26)	n.a.	n.a.	n.a.
		Transport – airports		
Independent Regulatory Agencies	11 (27)	n.a.	n.a.	n.a.
Private Participation	26 (27)	n.a.	n.a.	n.a.

Notes: * Independent agency refers to a body that is separate from the Ministry and from the operator in terms of financing, decision-making, and structure.
* "Private participation" refers to the existence of any kind of private participation including management and service contracts. Private capital refers to private participation that requires capital investment from private parties, includes only concessions, divestitures, and built-operate-transfer (BOT) contracts.
* Rail data was published in 2004, but there is a lag of about 2 years in the data. Thus, it would be more accurate to say that rail data is a snapshot of 2002.
* Ports and airport data is based on a survey of World Bank task managers conducted in the fall of 2004

Source: Estache, Antonio (2005), *What do we know about Sub-Saharan Africa's Infrastructure?*, mimeo, The World Bank; Estache and Goicoechea (2005) and Jane's World Railways 2003-04 Africa's infrastructure: challenges and opportunities, Word Bank and ECARES, Université Libre de Bruxelles.

The Need for Better Planning

The role of the state is crucial for improving infrastructure planning, setting priorities among transport modes, and integrating transport policies with other strategic goals, including poverty reduction. Careful up-front planning – what to build? Where to build? How to build it? – is crucial in order to maximise the benefits from infrastructure projects while minimising their environmental and social costs. Rather than focus solely on expanding networks, it should also pay attention to the interdependence and complementarities of different means of transport; the use of private and commercial means of transport (motorised and non-motorised); the importance of transport hubs and markets; and the development of secondary roads, paths, and tracks. Careful analysis is required to achieve the right balance between developing rural road networks – which may well reduce poverty in the short run – and investing in corridors serving established higher density routes that have high economic rates of return and can contribute to reducing poverty in the long run by generating high rates of economic growth.

Planning has multiple dimensions. Community participation at all stages and labour-intensive designs and construction training for local communities are important to maximise the generation of employment. In some cases, particularly with small-scale, localised projects, infrastructure initiatives function best when communities contribute directly. Local people can supply labour, or households can pay for the use of the services. Pilot activities can be used to promote lower technology, intermediate means of transport, which can enhance local productivity in low-density, low-income areas. Community participation and the exercise of some degree of control over proposed projects keep the benefits of infrastructure flowing and eases infrastructure maintenance. Incorporating the gender dimension into travel and transport planning has additional consequences for the protocols and participatory practices involved in designing a transport project or intervention.[58] Planning efforts should consider also the needs of women and disadvantaged groups. Women, in particular, may well be the backbone of the rural transport system in Africa, yet they are absent as professionals and users in the rural transport policy-making process.

Evaluation tools must go beyond traditional cost-benefit analysis and encompasses transport network effects (induced travel, modal shift, reliability, quality of transport services) and socio-economic spillovers (accessibility, employment, efficiency and output, social inclusion, land use effect, congestion, environment, etc). [59] Transport infrastructure has a crucial role in eliminating the demand for emergence of new slums in Africa. In planning the main radial and circumferential trunk roads, attention needs to be paid to the zoning of residential and commercial areas to be served by them, to their relation to other potential areas of employment, and to making reasonable projections of the future demand for motorised transport.[60] In developed countries, it is also standard practice to include travel time saving benefits in the economic analysis of transport projects. These turn out to account for a large proportion of the benefits from transport infrastructure investment. The use of these models is much less frequent in Africa (Box 13).

In practice, infrastructure development decisions are all too often made to serve private interests instead of the public good. High-cost projects may be favoured over cost-effective projects due to political patronage, prestige, or for the simple reason that higher-cost

58. Margaret Grieco (undated), *Users not losers: gender representation in transport design and operation*: http://www.geocities.com/margaret_grieco/womenont/gen_tran.html

59. OECD (2002), *Impact of Transport Infrastructure Investment on Regional Development.*

60. African Union, UN Economic Commission for Africa, ADfB and World Bank (2005), *Transport and Millennium Development Goals in Africa*, p. 34.

Box 13 - The Travel time Saving Benefits of Transport Projects

The Department for International Development (DFID) funded a project to test the applicability of conventional Stated Preference and Revealed Preference models for valuing the timesaving of rural travellers in least developed countries and to develop and demonstrate a robust methodology for estimating values of travel time saving that could be used in developing countries. Following a study in Bangladesh, a second one was carried out in Ghana and Tanzania, where population densities are lower, communities are more widely dispersed, and the transport sector is less diverse and competitive than in the Southeast Asian country.

The average in-vehicle time (IVT) saving values (nominal dollar equivalents) are almost identical in Ghana and Tanzania and substantially higher than in Bangladesh. The base average IVT values as a percentage of the rural wage rates are of a similar order of magnitude in the three countries, ranging between 49 per cent and 64 per cent. Based on these results (excluding the Tanzanian figure), the World Bank guideline of value of time for non-work journeys at 33 per cent of the hourly household income appears to be reasonable. In all three countries, there is a substantial difference between the travel time saving values for men and women. The higher value of time for men probably reflects their greater ability and willingness to pay because they are typically the cash earners and control the family budget. However, qualitative studies confirm that this value of time differential does not truly reflect the relative time pressures faced by men and women. The most disadvantaged in this respect are likely to be women from poorer households who have the most severe time constraints. Uncomfortable travelling would increase the willingness to pay by Cedi 1 388 ($0.15) in Ghana while a poor traveller's willingness to pay is Cedi 173 ($0.02) lower than the base in-vehicle time.

The studies have demonstrated that in order to use preference-ranking approaches effectively, it is essential to develop a thorough understanding of the local situation (means of livelihood, role of transport in the economic and social lives of people, the balance of decision making and financial powers between genders within households and travelling habits). Such understanding is needed for the design of the preference questionnaires and interpretation of the results. This study confirms that the conventional stated preference methodology is appropriate in a developing country context. The variations between countries indicate that, ideally, country-specific studies reflecting local conditions should be carried out. The next tasks are: *a)* to assess the impact of including value-of-time savings in project appraisal on rural transport infrastructure investment; *b)* to develop practical guidelines for estimating and applying value-of-time in the rural transport project appraisal, and *c)* to conduct empirical studies of modal shifts and time savings resulting from rural infrastructure and services improvement, an area in which current knowledge is very limited.

Source: I.T. Transport Ltd. (2005), *The Value of Time in Least Developed Countries: The African Studies*, DFID-funded Knowledge and Research (KaR) Project Contract No. R8307.

projects allow for larger kickbacks to corrupt officials.[61] The fact that "prestige projects" are especially liable to fail indicates that preparation and realism (demand risk) are key determinants of success. A new OECD initiative to improve the situation of weak governance zones – defined as countries in which governments are unable or unwilling to assume their responsibilities – can have positive consequences in this respect (Box 14).

Comprehensive transport planning is fairly recent in Africa and is not yet widespread. In South Africa, for example, it became a statutory planning activity with the enactment of the Urban Transportation Act (Act 78 of 1977). Nonetheless, in 1994 the post-apartheid government inherited a segregated and fragmented spatial system. In an effort to develop a comprehensive plan, the Government is using two main planning tools that will need to be carefully aligned: an integrated transport plan and an integrated development plan. A major challenge in many countries is to integrate transport into broader competitiveness strategies for urban areas; for the case of Cairo, where the population is expected to top 21 million people by 2022, see Box 15.

61. One of the most infamous such projects is the international airport at Eldoret, a remote village in Kenya that just happened to be then-President Arap Moi's home town.

Box 14 - OECD Risk Management Tool

The OECD has developed a Risk Management Tool that can help investors meet the multiple challenges (legal compliance, dealing with solicitation, threats of expropriation and extortion and avoiding charges of complicity with human rights abuses and high-level corruption) of doing business in weak governance zones.

Investors are expected, of course, to observe the same basic behavioural standards in weak governance zones as in other investment environments, although obeying the law and observing international standards is more difficult in weak governance zones. The Tool proposes a list of detailed questions that companies might ask themselves when considering actual or prospective investments in weak governance zones. The questions are organised under six headings: *a)* obeying the law and observing international instruments with special attention to human rights, international humanitarian law, management of business security forces, and combating corruption and money laundering; *b)* heightened managerial care with special attention to strengthening management systems, and the reporting and disclosing of information; *c)* political activities including involvement in local politics, and dealing with public officials with conflicts of interest; *d)* knowing clients and business partners; *e)* speaking out about wrongdoing; and *f)* business roles in weak governance societies – a broadened view of self-interest.

The Risk Management Tool, which was developed through a lengthy multi-stakeholder consultative process, will be useful not only for investors, but also as an integral part of OECD's dialogue with partner countries on investment and as a resource in promoting the Guidelines for Multinational Enterprises. For further information see: www.oecd.org/daf/investment/guidelines.

Box 15 - The Transport Master Plan in the Greater Cairo Region

Cairo is the largest city in Africa; it is home to at least 18 million people. Around 3 500 newborns are added to this number each day. Despite schemes of modernisation, in many parts of town donkey-carts are still a prominent feature. Losses caused by traffic accidents are estimated to reach LE2 billion per year while only LE55 million per year is allocated to the Cairo Traffic Authority.

In 2001, the Japan International Cooperation Agency (JICA) engaged with the government of Egypt in an innovative partnership to formulate a long-term urban transportation master plan in the Greater Cairo Region. The Master Plan aims to form a comprehensive and functional transport system with five strategies: *a)* improvement of people's mobility (not vehicle mobility); *b)* optimal infrastructure development and management; *c)* accessible transport for all; *d)* safe and comfortable transport; and *e)* sustainable institutional and financial mechanism. A planning focus was placed on a public transport system to serve all income groups equitably.

Innovative poverty reduction components include adoption of the service coverage of poor families as an evaluation indicator in planning the public transport network; introduction of a socially optimal fare system of public transport to ensure affordable access by the poor, while respecting the need for operational and managerial flexibility of public transport operators; and introduction of an intermodal system to facilitate people's accessibility to public transport.

The Master Plan delineates a more equitable transport network system which will assure a significant improvement in the public transport service coverage of the poor households, i.e., a total of 1.9 million poor households will be served by major public transport systems, compared to 460 000 at present. The simulation analysis indicates that given these polices, the poor group is expected to more frequently and more extensively engage in social and economic activities. Meanwhile, it was projected that the implementation of the Master Plan would bring an economic saving of LE7.5 billion per year. Formulation of a "public transport system accessible for all" is expected to mitigate the social segregation of the poor in the formal labour market and other economic activities as well as receiving benefits of social services. Development of an "intermodal transport system" with fewer barriers of time and cost is expected to enhance people's mobility and shift about 15 per cent of trips from individual vehicles to public transport modes. Affordability for the poorest of the poor should be ensured by provision of a social welfare scheme.

Source: JICA presentation at the OECD/DAC Network on Poverty Reduction meeting "Global Picture for Infrastructure and Pro-Poor Growth", Paris, 29-30 March 2004 and "Reaching an impasse", *Al-Ahram*, No. 779, 26 January - 1 February 2006.

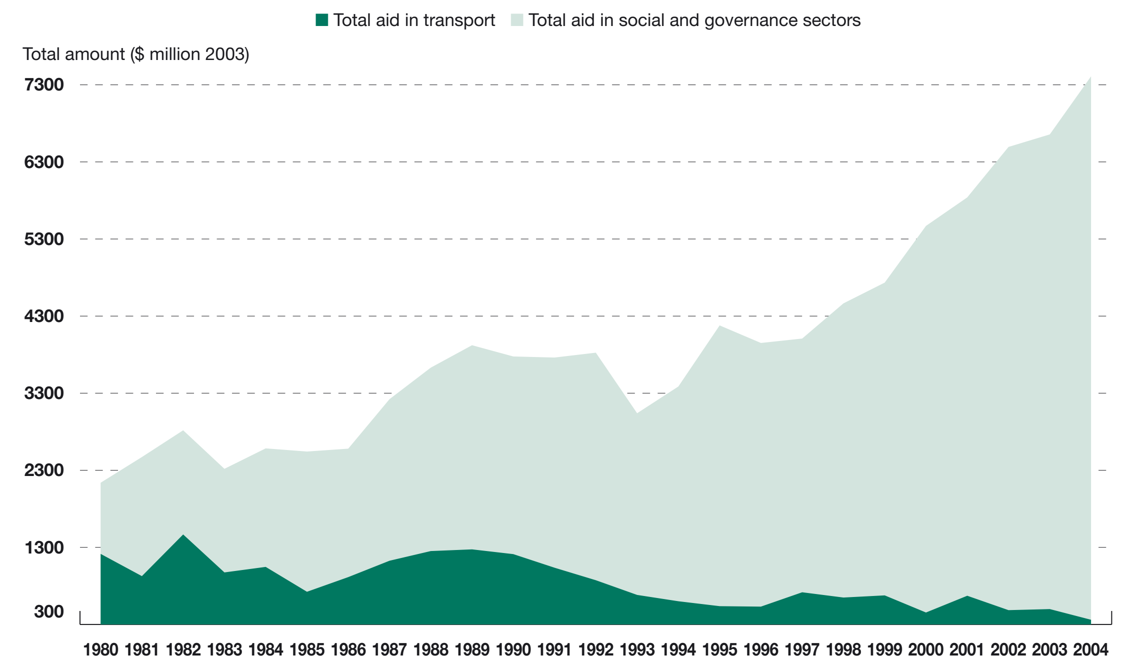
Integrated national strategies prepared under the auspices of committees including representatives of all the main organisations, private as well as public, can also contribute to improve road safety.[62] In Ghana, the National Road Safety Commission's comprehensive strategy aimed at 5 per cent reduction in annual fatalities and injuries between 1998 and 2005. In fact, the fatalities fell even more substantially from 31 per 10 000 vehicles in 1998 to 23 per 10 000 in 2003,[63] but the country's political leadership in the transport sector has to galvanise effort, keep the focus on a few doable priorities, and insist on action at the executive level.[64]

The Role of Development Co-operation

The wide gap between public and private benefits and difficulties of transforming economic benefits into financial flows implies that neither full public ownership (inefficient) nor complete privatisation (unfeasible) is likely to be adequate. Public investment in transport infrastructure will continue to be necessary and for many countries support from the international donor community will be essential given limitations on budgets. Over the 1990s, infrastructure was largely overlooked in Africa, as far as the distribution of aid resources is concerned, in favour of the social sectors (see Figure 10 below).

Recently, however, infrastructure regained ground as a top priority on the international development agenda. For example, infrastructure was a major issue at the September 2005 UN Millennium plus 5 Summit, as well as a central theme of the March 2005 report by the Commission for Africa. Both emphasised that a substantial boost to aid-financed investment in infrastructure could constitute an important way to

Figure 10 - **Evolution of Total ODA for Transport and Social Sector and Governance in Africa-DAC Donors (1980-2004)**



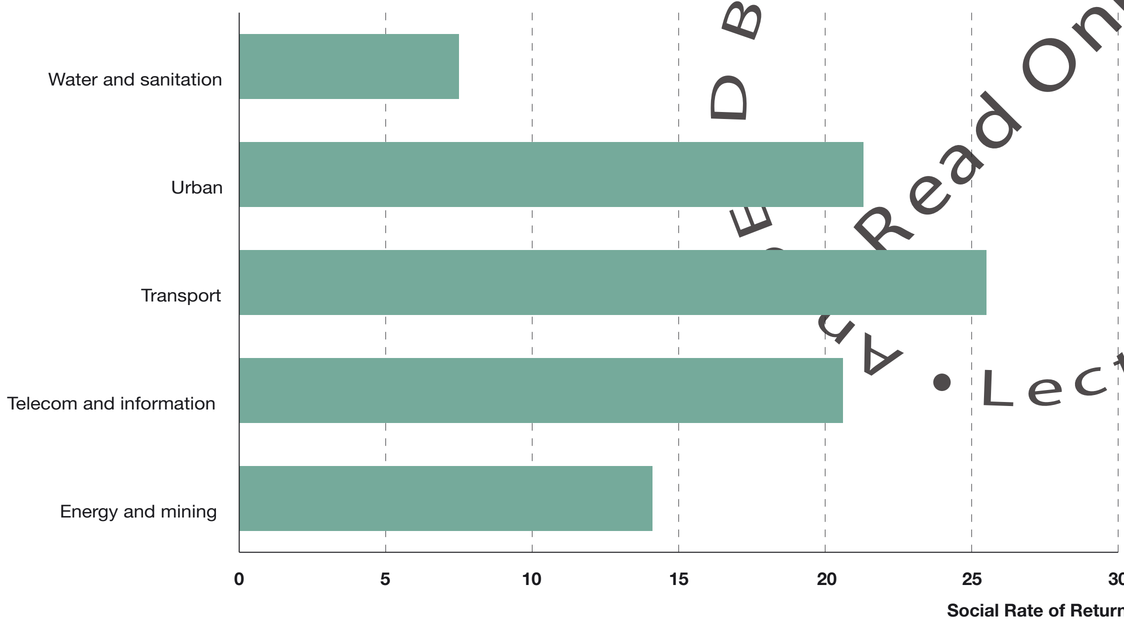
Source: OECD/DAC Creditor Reporting System (commitments) data.

62. African Union, UN Economic Commission for Africa, ADfB and World Bank (2005), *Transport and Millennium Development Goals in Africa*, p. 31.

63. Ghana Ministry of Roads and Transport (2005), "A Case Study of the Role of Transport in Achieving the Millennium Development Goals".

64. Downing, Andrew and Dinesh Sethi (2001), "Health Issues in Transport and the Implications for Policy", paper prepared for DFID.

Figure 11 - **Social Rate of Return of Infrastructure Projects in 1964-**



Source: *AEO* elaboration on Estache, A. and Liu, R (2003). «Social rates of return on World Bank Infrastructure projets : a review of 40 years of experiments », the World Bank, Power point presentation, (2003).

contribute to increased sustainability of long-term development. Moreover, the case for reversing the trend in aid to infrastructure is strongly supported by economic analysis since estimates of the average social rate of return of transport investment in Africa between 1964 and 2003 were higher than for other infrastructure projects (Figure 11).[65]

From 1990 to 2003, total ODA commitments in the transport sector amounted to $66 658 million, of which 72 per cent is bilateral ODA. The share of transport-related ODA extended by bilateral donors decreased from 78.46 per cent in 1990-96 to 65.52 per cent in 1997-2003. Africa received 27.46 per cent of total ODA transport flows (of which almost a quarter went to sub-Saharan Africa), which puts the continent well behind Asia (59.70 per cent, of which 45 per cent to Far East Asia) but well ahead of Latin America (3.7 per cent). If the 1990-2003 period is further divided into two, seven-year sub-periods, it can be seen that the African share has grown significantly (from 25.96 per cent to 28.98 per cent of total ODA transport flows). A striking difference in the composition of total ODA transport flows concerns the ratio of multilateral institutions, which is equal to 15.08 per cent in sub-Saharan Africa in 1990-2003 (with a steep rise between the two sub-periods) as opposed to a mere 0.28 per cent for the world as a whole. Another way of reading the same phenomenon is that multilaterals have devoted 55.87 per cent of their transport commitments in 1990-2003 to Africa. For the 30 African countries included in *AEO* 2006, total 1990-2003 multilateral transport aid has amounted to $8 086 million (with IDA, EC and AfDB ranked in order of importance), while bilateral aid has been equal to $6 223 million (with Japan, Germany, and France contributing $3 815 million).

As mentioned earlier Non-DAC donors, have been increasingly active in Africa. This includes the financing of transport infrastructure. China provides support in the form of trade credits tied to Chinese enterprises,

65. Estache, Antonio (2005), *What do we know about sub-Saharan African infrastructure?*, mimeo, World Bank, p. 12.

which has raised concerns (see Box 16). In contrast, Arab countries provide almost all their aid on an untied basis.

Although the mobilisation of increased resources is possibly the most pressing challenge for donors, using ODA to leverage private and other public resources more efficiently and reducing the inefficiencies of some current aid modalities (tied aid, use of project implementation units, differing procedures, unreliable aid flows, etc.) are equally important.

As indicated by the guidelines of the POVNET Task Team on Infrastructure (Box 17), another major priority for donors is to align transport sector strategies with national pro-poor growth strategies and medium-term expenditure frameworks (MTEF). Currently, there are weaknesses in the links between national strategies and MTEF, with significant off-budget infrastructure funding, making it difficult to achieve co-ordinated sector investment coherent with national pro-poor growth strategies. This is particularly

Box 16 - **Chinese Assistance to Angola and Mozambique**

In 2005, China Eximbank extended a $2 billion credit to Angola's government to buy goods and services from China. The conditions include repayment over 17 years, a period of grace of up to five years, and a 1.5 per cent interest rate per annum.

Chinese loans are used not only for the rehabilitation of the three main lines – the 1 336-km Benguela railway from Lobito to the eastern border with Zambia and the Democratic Republic of Congo, the 479-km Caminho de Ferro de Luanda from Luanda to Malanje and the 907-kM Moçamedes railway inland from the coastal town of Namibe – but also construction of several transversal sections linking the three existing east-west lines. According to the transport minister, André Luís Brandão, the Namibe and Benguela lines should be operational within three years. Having already rehabilitated 17 de Setiembro Airport, the Chinese government will also finance the construction of a new airport in the central Benguela province.

This credit has some advantages and disadvantages for Angola. First, the real cost of this loan is higher than that implied by the published rates, because non-Chinese suppliers are excluded, negatively affecting the prices of imports of goods and services. However, this real cost should still be clearly under the rates at which Angola was already borrowing elsewhere. Second, Angola has urgent and large needs of financing to support a rapid programme of investments for the recovery of the infrastructure, which would allow the reintegration of the country, a basic condition for the reactivation of the economy and, especially of agriculture. This was seen as basic condition for the consolidation of peace and the alleviation of the catastrophic social problems left by many years of war and economic mismanagement. Other sources of financing were blocked by Paris Club rules and by the inability to reach an agreement with the IMF.

The few data available suggest that the imports of consumer goods from China have increased but not at the enormous rates that many feared. However, heavy recourse to Chinese contractors and labourers hampers the development of an indigenous private sector and the possibility of creating new jobs.

Various agreements exist between Mozambique and China on economic and technical co-operation and for which support schedules exist, such as concessional loans with low or even zero interest rates, and donations. However, it is not clear whether specific support schemes exist for Chinese contractors coming to Mozambique to carry out specific support projects, e.g. in the form of entry grants. Chinese companies are mainly operating in the Mozambican construction market, in real estate, water and sanitation, and roads and bridges. In particular, Chinese contractors are currently involved in over one third of Mozambique's current road construction programme, amounting to 600 km of roads. Also a Chinese company won the tender for a large bridge in the north of Mozambique and which connects Mozambique and Tanzania.

According to the National Roads Authority, ANE, Chinese participation on international tenders is a given since 2003 and they generally offer lower prices than their South African and European competitors. According to the Mozambican authorities Chinese construction companies deliver overall good quality outputs within schedule and at very competitive prices. The price difference is often significant and can be 25 per cent to 50 per cent cheaper than the competitor's offers.

Source: Aguilar, R. (2006), "The Asian Drivers and Angola" prepared for the OECD experts' meeting in Paris, March 16-17 and Bosten, E. (2006), "China's Engagement in the Construction Industry of Southern Africa: the case of Mozambique, prepared for the GDN Conference workshop in St. Petersburg, 19-21 January.

important to ensure sustainability of transport infrastructure investments through a better treatment of recurrent costs. Donors should support Ministries of Finance and line Ministries to improve their capacity to align sector strategies and investment plans with PRS and MTEF, respecting the principles of country ownership (Box 18).

Structured grass-roots involvement in the planning and design of local infrastructure interventions, linked to and supported by local government, is an essential condition for ensuring that needs are met and that local inputs (time, money and labour) are harnessed. Methods such as Integrated Rural Accessibility Planning (IRAP) should be more widely adopted (Box 19).

Box 17 - **Transport infrastructure for Pro-poor Growth**

In 2004, the Network on Poverty Reduction (POVNET) of the OECD Development Assistance Committee (DAC) began an ambitious programme to advance pro-poor growth. The programme has focused on how DAC members can best help partner countries achieve growth rates and patterns that make greater, more equitable progress against poverty. Infrastructure, along with agriculture and private sector development, is a key element of this work. A POVNET Task Team on Infrastructure identified weaknesses in earlier donor approaches and developed four key principles to guide efforts to promote pro-poor growth in partner countries through infrastructure.

i) Use partner country – led frameworks as the basis for co-ordinated donor support;
ii) Enhance infrastructure's impact on poor people;
iii) Improve management of infrastructure investment, to achieve sustainable outcomes; and
iv) Increase infrastructure financing and use all financial resources efficiently.

For further information see: Guiding Principles on Using Infrastructure for Poverty Reduction - Report submitted by the POVNET Task Team on Infrastructure (http://webdomino1.oecd.org/COMNET/DCD/PovNet.nsf).

Box 18 - **The Sub-Saharan Africa Transport Policy Program**

The multi-donor funded Sub-Saharan Africa Transport Policy Program (SSATP) is providing support to 26 African countries to undertake a participatory process by which national stakeholders (public, private, civil society) review the links and coherence between their national transport and poverty reduction strategies. SSATP supports formulating action plans so that transport improves its contribution to poverty reduction. In Tanzania, it has led to the creation of a transport-economic sector working group under the PRS Technical Committee and to plans to address capacity gaps in the line Ministry and to improve stakeholder involvement, particularly from the private sector[66].

In late 2004, the SSATP launched a four-year initiative on transport performance indicators. The objective is to co-ordinate and promote efforts to establish a common set of key transport sector performance indicators, and to assist in building up capacity to collect the required data in a sustainable manner. The indicators are meant to help measuring the contribution of the transport sector to achieving the MDGs; encourage countries, Regional Economic Communities (RECs), and agencies in SSATP countries to collect a common set of data, which is needed for planning purposes; give an indication as to where intervention in the transport sector is necessary in relation to the "minimum infrastructure platform" (MIP) notion; and allow comparing sector performance over time and between countries.

Box 19 - **Promoting Participatory Planning in a Donor-Funded Project[67]**

A road rehabilitation and maintenance programme in Nyanza province of Kenya, supported by Sida, uses innovative methods to include local communities in the planning, selection, implementation and monitoring of roads works. Stakeholders' fora are being created, operating under the District Development Committee, with the role of identifying and prioritising road projects, mobilisation of the community for programme activities, monitoring of programme implementation and liaison with various public organisations in each district.

66. SSATP (2003), *Guidelines for the Review of Transport and Poverty Reduction Strategies.*

67. Nyanza Roads 2000 Programme (2005-2008), Kenya, supported by Sida.

Donors can also play an important role in assisting government to strengthen the regulatory framework, through technical assistance for improving enforcement of contracts, and increasing the capacity of government to manage procurement (Box 20).

Increasingly, bilateral aid is provided through technical assistance. In the case of air safety, the United States has begun a partnership, initially with eight African nations, to raise standards to those of the International Civil Aviation Organisation (ICAO). These measures have coupled navigational safety with airport security, clearly a US interest (Box 21).

Official development assistance can also be a powerful tool to lever more private sector investment from international and local sources, particularly by improving the viability of investments in eyes of financiers. Various mechanisms can be pursued: the provision of guarantees, insurance for political risks, co-financing, on-lending, equity or equity insurance, local-to-hard currency swaps and advisory services. Involvement of donors in public-private partnerships can also help to increase their viability, and encourage private-sector involvement (Box 22).

Regional Co-operation

Developing regionally focused infrastructure projects assists in increasing market sizes and, subsequently, creating larger economies of scale. This, in turn, attracts private investment and makes it possible to develop transport networks, telecommunications, power, and markets that sustain an expanding private sector. Regional co-operation in transport infrastructure projects can have a critically positive role by facilitating growth of intra-area trade and investment, but also by improving the competitiveness of trade linkages with the rest of the world. The Trans African Highways (TAH) network, conceived in the early 1970s, is possibly the most ambitious of several regional transport infrastructure development initiatives.[69] An analysis of 103 cross-border TAH links (sections leading to border posts) shows that 33 per cent are unpaved roads in various conditions - good, fair and poor, 16 per cent are paved roads in poor condition and 38 per cent are paved roads in good or fair condition.[70] There is a disparity in the level of physical integration across the continent (Table 14)

NEPAD has recognised transport and trade facilitation as a priority area in its infrastructure action plan. The goal of the NEPAD transport programme is to close Africa's gap in transport services and infrastructure by mobilising political support and financial resources to pursue reforms, supporting regional integration and overall competitiveness, and promoting innovative approaches to resources mobilisation. Many development agencies and institutions, such as the AfDB and UNECA, support

Table 14 - **The Trans African Highways Network**

Regional Economic Community	Total TAH links (kms)	Missing Links (kms)	Missing links as a share of total
COMESA	15,723	2,695	17
EAC	3,841	523	14
ECCAS	10,650	4,953	47
ECOWAS	10,578	2,970	28
IGAD	8,716	2,423	28
SADC	11,454	2,136	19
UMA	5,923	1,110	21

Source: ECA (Economic Commission for Africa) (2004), *Assessing Regional Integration in Africa*, Addis Ababa.

69. The network is made up of nine sections namely: Cairo-Dakar, Algiers-Lagos (Trans-Saharian Highway), Tripoli-Windhoek, Cairo-Gaborone (Trans-East African Highway), Dakar-N'Djamena (Trans-Sahelien Highway), N'djamena-Djibouti, Lagos-Dakar (Trans-Coastal Highway), Lagos-Mombasa, and Beira-Lobito.

70. ECA (2005), *Trade Facilitation to promote Intra-African Trade*, prepared for the Committee on Regional Cooperation and Integration, Fourth Session, Addis Ababa, 24-25 March.

Box 20 - The Role of Donors in Fostering Regulation in Infrastructure[68]

The multi-donor Public-Private Infrastructure Advisory Facility (PPIAF) provides technical assistance to Governments in developing countries to tap private involvement in infrastructure. It provides support to the drafting of laws and regulations related to reform strategies and regulation of infrastructure sectors, assists in the design and implementation of private-sector transactions (management contracts, leases, auctions of licenses, utility privatisations and long-term concessions), helps to establish and strengthen regulatory authorities and financing facilities and disseminates emerging lessons.

Box 21 - International Co-operation Initiatives to Improve Air Safety

In April 1998, the US Secretary of Transportation announced the President's "Safe Skies for Africa Initiative" to promote sustainable improvements in aviation safety and airport security. This had three main goals: to significantly increase the number of countries in sub-Saharan Africa that meet the safety and security standards of the International Civil Aviation Organisation, to improve security at 8-12 airports in Africa within three years, and to improve regional air navigation services. The purpose of this presidential initiative is to promote sustainable improvements in aviation security and safety in Africa and to create the environment necessary to foster the growth of aviation services between Africa and the United States. Nine African countries were selected to participate in this programme. They are: Angola, Cameroon, Cape Verde, Côte d'Ivoire, Kenya, Mali, Namibia, Tanzania, and Zimbabwe.

At its 61st Annual General Meeting and World Air Transport Summit in May 2005, the International Air Transport Association (IATA) also announced that $2 million will be invested to implement the IATA Operational Safety Audit (IOSA) programme—the global standard for airline safety management – in Africa. ICAO already co-operates with ASECNA (Agence pour la sécurité de la navigation aérienne en Afrique et à Madagascar – Agency for the Safety of Air Navigation in Africa and Madagascar), that groups sixteen countries from French-speaking Africa sharing their technical and supervisory resources.

Box 22 - The Emerging Africa Infrastructure Fund

The Fund represents a new financing approach for the long-term alleviation of poverty in sub-Saharan Africa through combining public and private funding partners and adopting commercial and developmental principles in support of sustainable development and economic growth. The Fund was initiated in 2002 by the Private Infrastructure Development Group, whose founding members are the UK Government's Department for International Development, the Swedish International Development Co-operation Agency, the Netherlands Minister for Development Co-operation and the Swiss State Secretary for Economic Affairs. Following a competitive tender to the private sector, SIFMA received primary responsibility for the overall management of the Fund under an exclusive long term Fund Management Contract. SIFMA is a private limited company established in Mauritius by its shareholders: Standard Bank Group, FMO of the Netherlands and Emerging Markets Partnership of the United States. Emerging Africa Advisers is SIFMA's principal adviser on all elements of the investment process and in particular has responsibility for deal origination, structuring, due diligence, the development of investment proposals and the subsequent post-investment monitoring process.

The overall amount of financing available from the Fund for any single transaction is limited to a minimum of $10 million, and a maximum of 10 per cent of the Fund's size, or currently $30 million. Borrowers must be in the private sector in terms of both ownership control and management. Hence, borrowers are ineligible for support from the Fund if a government's shareholding is more than 50 per cent or the financing has a full guarantee from a host government. However, structured guarantees in support of contractual public sector obligations to a project will be acceptable.

Whilst the Fund's core product is the provision of US dollar-denominated, senior-ranking term debt, a range of complementary products (such as subordinated or mezzanine debt and guarantees in respect of senior debt to facilitate the provision of local currency funding) may be offered. All the Fund's products are offered on commercial terms, with such terms being determined following a detailed assessment of the borrower's credit and risk profile. Although the Fund is not a concessional lender and is not able to offer soft terms, it is able to lend without political risk cover, to offer lending terms up to a maximum of 15 years, and to consider loan repayment profiles that suit the cash flow profile of the underlying business. The Fund already supports the private partnership between Intels and Maersk Sealand that manages the Onne river port terminal near Port Harcourt in Nigeria.

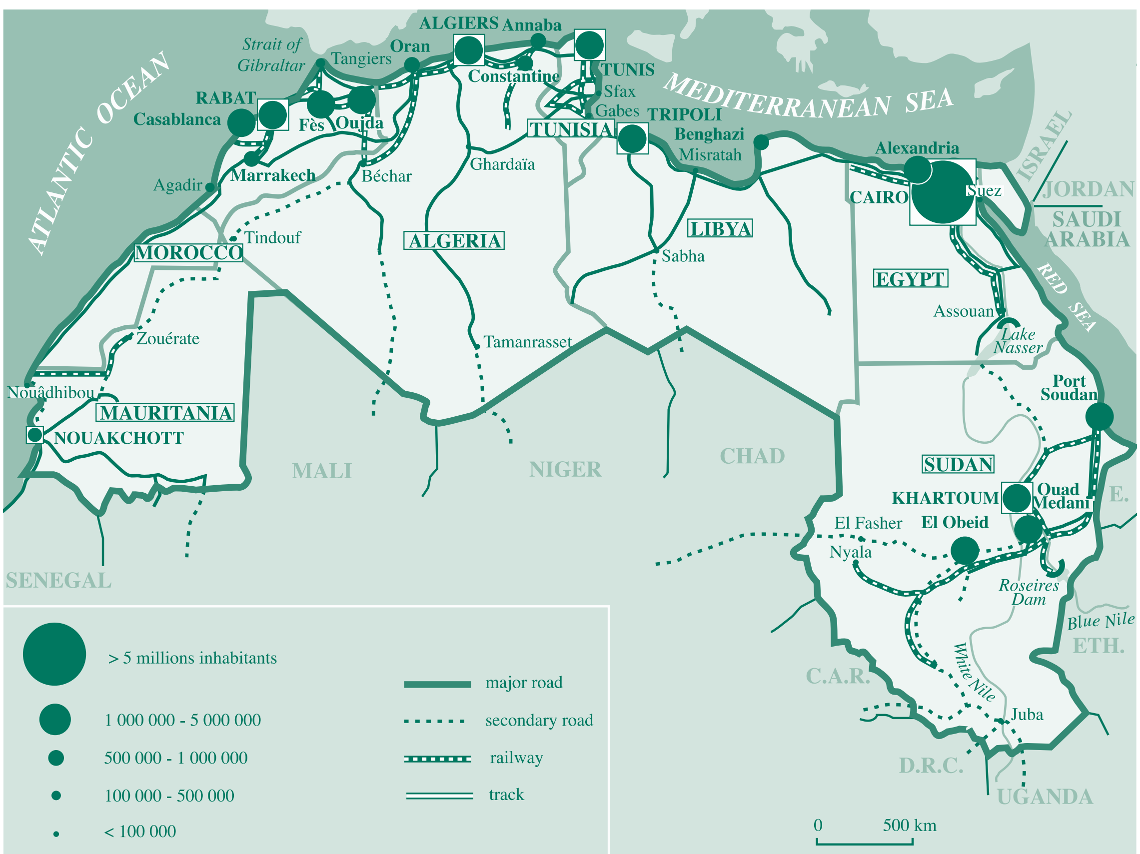
68. PPIAF was developed by Japan and the UK in collaboration with the World Bank.

NEPAD and the Regional Economic Communities, which are the "building blocks" of the initiative. AfDB, in particular, has developed an approach based on three pillars: an infrastructure Short Term Action Plan (STAP) to kick-start the process, an Infrastructure Project Preparation Facility (IPPF) to bring NEPAD infrastructure projects to bankable levels, and finally a Medium-to-Long-Term Strategic Framework (MLTSF) – currently under development - to define a solid framework for the future.

North Africa

Trading blocks, such as the Euro-Mediterranean Free Trade Area and the Arab Maghreb Union (AMU), hold promise for increasing trade and deeper integration with the global marketplace. Moreover, following the 11 September events intra-regional travel and tourism flows have experienced a substantial increase. Nonetheless, poorly functioning assets, heavy regulatory requirements, burdensome customs/clearance procedures, and high tariffs all combine to dampen such dynamisms. The capacity of roads, airports and ports is stretched, putting constraints on economic growth and poverty reduction. Throughout North Africa, a fundamental requisite to facilitating the movement of goods and creating efficient trade logistics systems is transport infrastructure that offers ample coverage and intermodal connectivity, sufficient capacity to accommodate traffic flows, cost-effective part and facilitation services. Although UMA has agreements on transport, including some that facilitate cross border transport of goods and services, implementation is incomplete.

Figure 12 - **North Africa map**

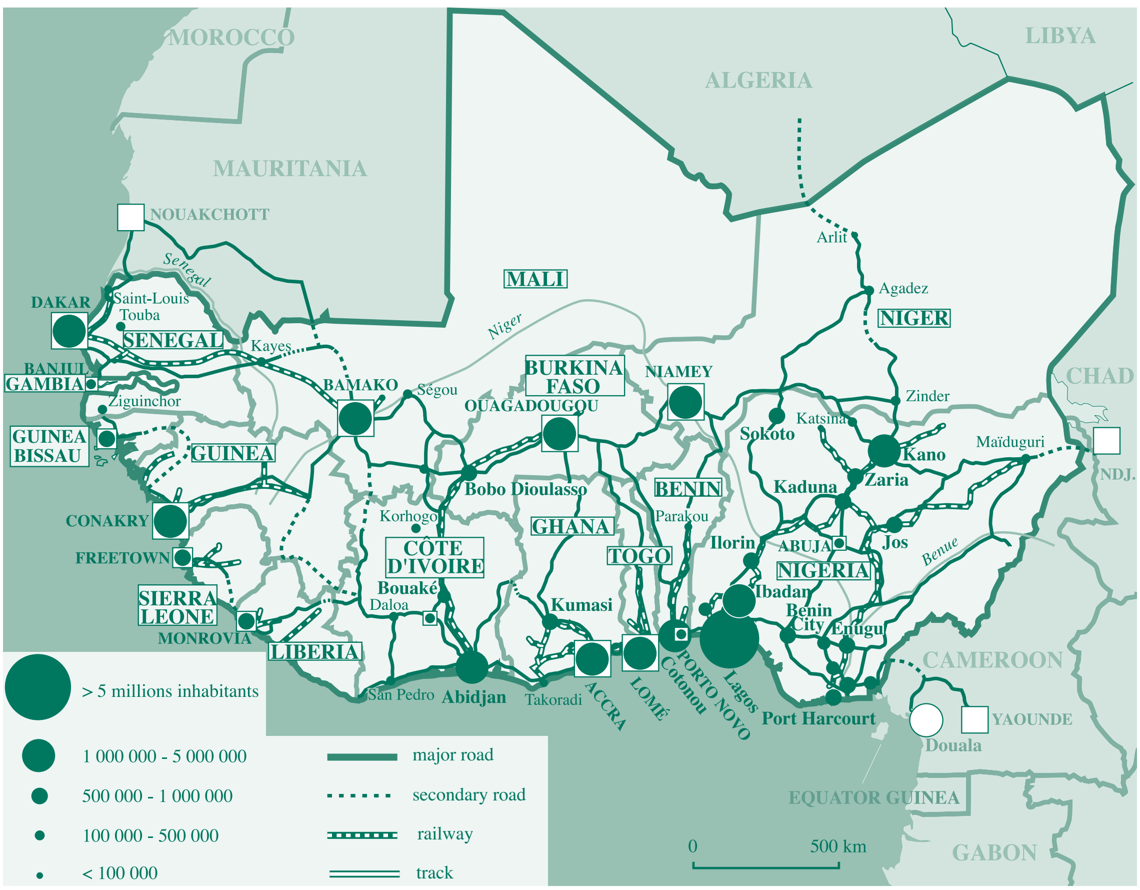


Source: Roland Pourtier, Initiative for Central Africa (INICA).

West Africa

Another contribution to resolving Africa's high transport costs would come from the alignment of rules governing road transport and the homogenisation of technical standards. Along the West African road corridors linking the ports of Abidjan (Côte d'Ivoire), Accra (Ghana), Cotonou (Benin), Dakar (Senegal), and Lomé (Togo) to Burkina Faso, Mali, and Niger, truckers paid $322 million in undue costs at police, customs, and gendarmerie checkpoints in 1997, partly because the Inter-State Road Transportation Convention had not been implemented. Since 2003, the WAEMU (West African Economic and Monetary Union) and ECOWAS (Economic Community of West African States) have jointly implemented a regional traffic facilitation programme, centred around five main corridors (Côte d'Ivoire – Burkina Faso – Niger; Togo – Burkina Faso – Mali/Niger; Côte d'Ivoire – Mali; Côte d'Ivoire – Ghana – Togo – Benin – Nigeria; and Ghana – Burkina Faso - Mali/Niger). Its main priorities include the adoption of a single road transit document to simplify procedures, a reduction in the number of cross-border controls, and the harmonization of customs ICT systems. The programme also has a specific component to fight the spreading of HIV/AIDS along road corridors.

Figure 13 - **West Africa Map**

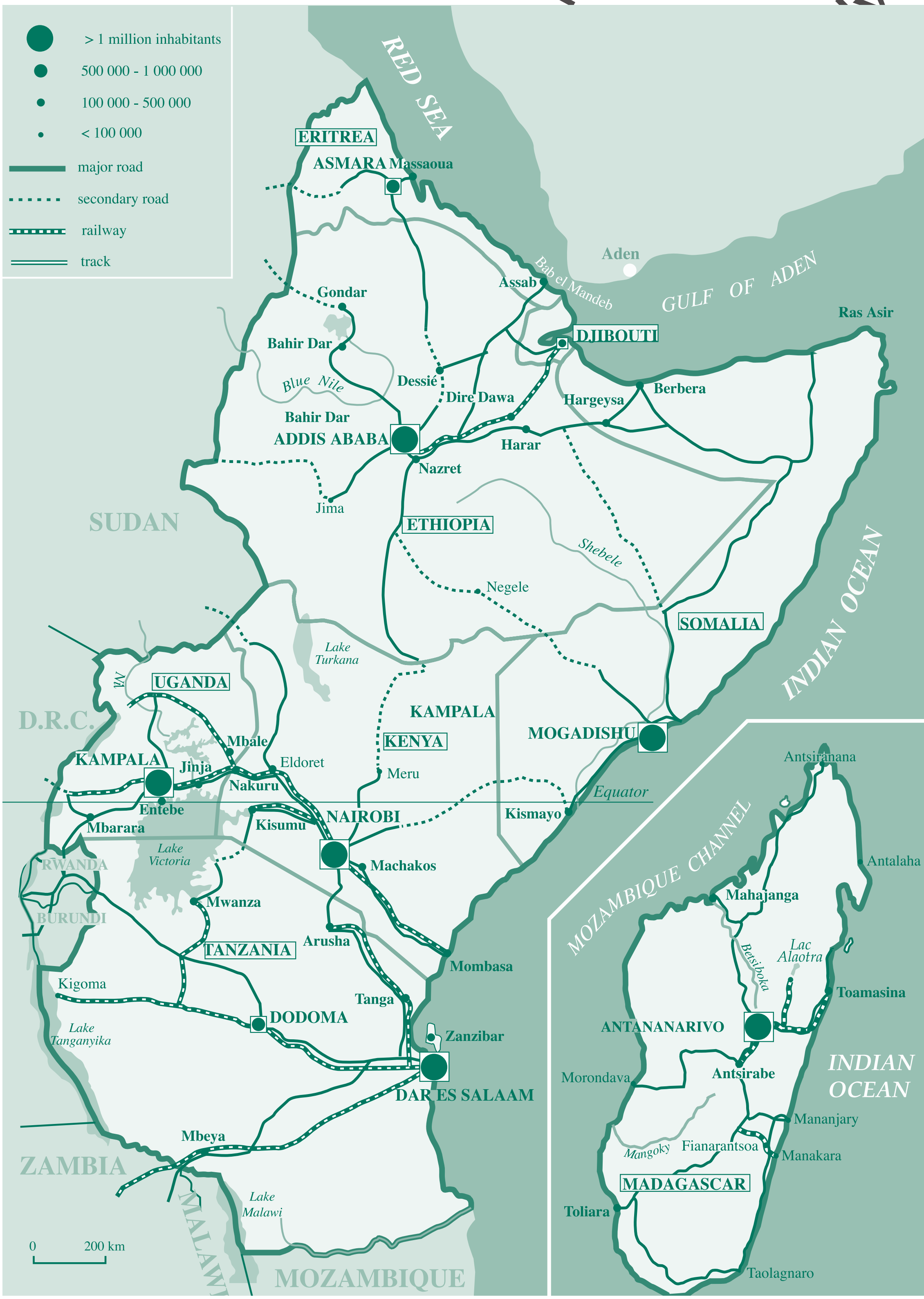


Source: Roland Pourtier, Initiative for Central Africa (INICA).

East Africa

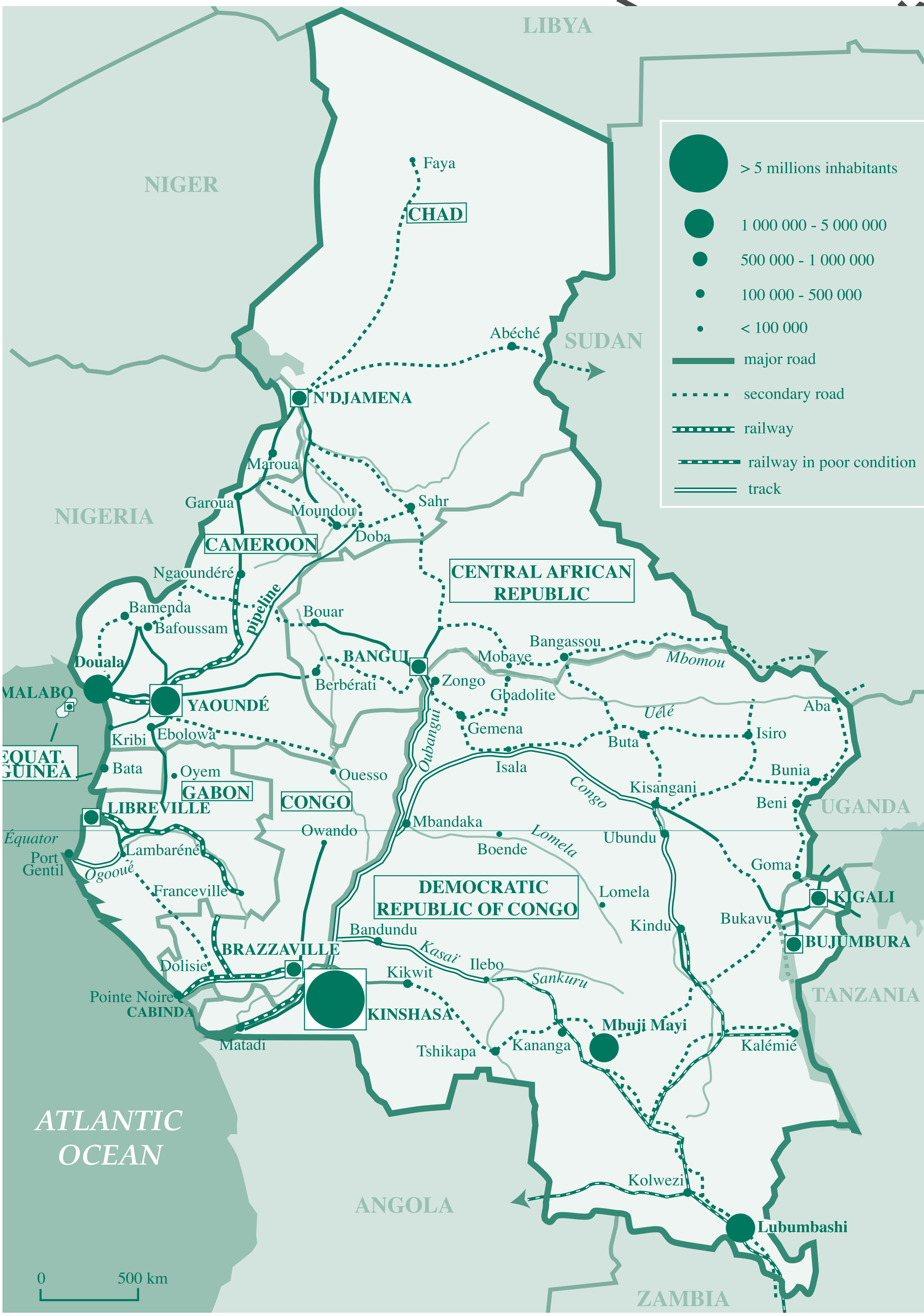
Having an efficient transit transport system in place (and avoiding slow and expensive border-crossing procedures) is clearly of paramount importance for landlocked countries and appropriate policies must be promoted on the basis of the mutual interests of both landlocked and transit developing countries. During

Figure 14 - **East Africa map**



Source: Roland Pourtier, Initiative for Central Africa (INICA).

Figure 15 - **Central Africa Map**



Source: Roland Pourtier, Initiative for Central Africa (INICA).

Figure 16 - **Southern Africa Map**

Source: Roland Pourtier, Initiative for Central Africa (INICA).

the 1990s inland container depots were established to serve landlocked countries of the continent. The Economic Community of the Great Lakes Countries (ECGLC), which includes two landlocked members, Burundi and Rwanda, pursues a policy to establish alternatives to the northern and central corridors, such as a transit route from Mbarara in Uganda to Kigali in Rwanda through Kagitumba (on the border between

Uganda and Rwanda) and Kayonsa. The multimodal corridor using Lake Victoria will also be linked to member countries either by a rail link from the ferry terminal at Kemondo Bay to Rusumo, or by the inland waterway from Kagera to Kagitumba. ECGLC countries are also promoting a multimodal corridor Isaka-Dar es Salaam-Nyanza by rail and Isaka-Lusahunga-Nyakahura-Ruhigi towards Burundi and from Isaka, through Lusahunga and Rusumo, by road towards Rwanda.

Central Africa

Within the Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC), four countries out of seven do not have other land transport networks but poor-quality roads. In 1993 the decision was taken to develop so-called « axes structurants » (meant to link member states by paved roads) and in 2000 such plans gained further ambition by the adoption of a « réseau routier prioritaire intégrateur » including various regional itineraries. Progress has been uneven. While the road linking Libreville (Gabon) to Brazzaville (Congo) has yet to be completed, the city of Oyo that is situated at the intersection of two « axes structurants » (Leketi – Franceville and Infondo – Bangui, respectively) has developed into a flourishing locality. On the other hand, the three economic communities in Central Africa show a very low degree of inter-connectivity. To the west, there is a navigable river network converging from Kisangani and Bangui towards Kinshasa and directed to a corridor ending with Matadi. To the south, there is a corridor for Katanga and the Kasai directed towards the port of Durban. To the east, there is an opening towards the Indian Ocean. The landlocked countries of Burundi, Rwanda and Uganda can benefit from their location as a crossroads between east and central Africa. The DRC is by far the least well-endowed, making rehabilitating its communication routes an absolute priority. The DRC's reconstruction and regional integration need to be based on restoring navigation on the Congo River and building road networks connecting the various regions[71]

Southern Africa

The Southern African Development Community (SADC) has the best TAH segments, although some critical links between member states are missing, such as bridge connections between Botswana and Zambia and between Namibia and Zambia. SADC has advanced further in taking a regional, multi-sector approach to transport—an approach based on development corridors and spatial development initiatives. The Witbank-Maputo axis (South African National Route N4 corridor), in particular, connects Southern Africa's industrial hinterland to the major Indian Ocean port of Maputo.

71. Pourtier, R.(2003), Central Africa and the Cross border regions: Reconstruction and Integration Prospects, CITY, Central Africa Initiative.

Annex A1. - **Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports***

	Airports	Railways	Seaports
Algeria	**Algiers Airport, 1999:** Aéroports de Paris (ADP) obtained a management contract for technical assistance with a new terminal.	**Algerian Railways, 2006:** In March the Société Nationale des Transports Ferroviaires (SNTF) signed a contract with a consortium controlled by the Spanish OHL to rehabilitate the existing railway and build a new one. Rehabilitation works, budgeted at €248 million, are expected to be completed in 39 months	
Angola	**Luanda International Airport, 2005:** Projects focused mainly on rehabilitating the runway are being undertaken by G.M. International in joint venture with Sarroch Granulati Srl. Amount allocated: € 2.7 million.	**Railway Network, 2005:** A $4 billion rail system rehabilitation project for 11 years was launched by the government. The project, partly funded by Chinese loans, involved the rehabilitation of the 1 336-km Benguela railway, the 479-km Caminho de Ferro de Luanda, and the 907-km Moçamedes railway.	**Port of Luanda, 2005:** state-owned Unicargas started operating a new general-purpose port terminal with capacity to handle 244 000 tonnes of general cargo a year, under a 20-year concession agreement. 2005: The Brazilian Multiterminais was granted of a 20-year concession for the management of the terminal.
Benin			**Port of Cotonou, 2006:** The Port Autonome de Cotonou manages the port which is going to be transferred to a private company, regrouping the totality of port operators, public and private.
Botswana			
Burkina Faso			

Annex A1. **- Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports*** *(cont.)*

	Airports	Railways	Seaports
Cameroon	**Douala, 1994:** Aéroports de Cameroun (ADC), a private limited company was granted a 15-year concession by the government for operating, maintaining and developing seven airports in Douala, Yaounde, Garoua, Maroua, Ngaoundere, Bamenda and Bertoua.	**Railway Network, 1999:** Bolloré Group, through its participation in Cameroon Railway (CAMRAIL), became concessionaire of the Cameroonian Railway.	**Port of Douala, 2004:** A provisional award of the management of the container terminal (TAC) was made to the ITS Consortium, a group composed of the main port operators, including Bolloré (SDV, Saga, Socopao) and Maersk. Port of Douala, 2005: APM Terminals, the ports division of Denmark's AP Moller - Maersk Group, was awarded a 15-year management contract for the Douala Container Terminal. The consortium planned to develop the terminal by investing in new equipment, including new gantry cranes and the installation of an IT system.
Chad			
Congo		**Railway Network, 2005:** The committee of privatisation of the railways Chemin de fer Congo-Océan (CFCO) re-launched the candidature of Sheltam Mvela (South Africa), the only operator interested in the concession planned for 25 years. In November, the Congolese Labour Unions contested the operation. No final decision has been taken as at March 2006	

Annex A1. - **Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports*** *(cont.)*

	Airports	Railways	Seaports
Congo DR		**Railway Network, 1995:** a 5-year contract was granted to Sizarail (South Africa) to take over the management of the SNCZ (Société Nationale des Chemins de Fer du Zaire), the national rail network. But, in May 1997 the new government cancelled that agreement for administrative reasons.	
Côte d'Ivoire	**Abidjan airport, 1999:** a 15-year concession agreement transferred the responsibility for the operation and development of Abidjan airport to AERIA, a special purpose company controlled by the Société d'Exploitation et de Gestion Aéroportuaire (SEGAP), and the Marseilles Chamber of Commerce and Industry (MCCI).	**Abidjan-Ouagadougou railway, 1994:** The Governments of Burkina Faso and Côte d'Ivoire jointly awarded a 15-year concession contract to Sitarail (International Company for African Rail Transport) for the operation of the Abidjan-Ouagadougou railway. Sitarail is a consortium comprising a private company, the two countries' Governments' railway staff and local private investors. Sitarail's operations ceased in September 2002 due to armed rebellion in Côte d'Ivoire. Operations resumed in September 2003 but due to a year's lapse in service, Sitarail was in financial distress.	**Port Autonome d'Abidjan** **2000,** an Anglo-Dutch consortium, Lodeco, was awarded a 30-year BOT agreement for a new container facility. Total cost of the project was estimated at $140 million. Funding came from a consortium led by the African Development Bank. 2003: The management of the container terminal (TAC) was granted to the ITS Consortium, a group composed of the main port operators, including Bolloré (SDV, Saga, Socopao) and Maersk.
Egypt	**Cairo International Airport, 2004:** Fraport (Germany) was granted a concession to operate Cairo International Airport, whilst Aéroports de Paris (AdP) signed a contract to manage 5 other airports in Sharm el-Sheikh, Luxor, Assuan, Hurghada and Abu Simbel.		

Annex A1. - **Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports*** *(cont.)*

	Airports	Railways	Seaports
Ethiopia			
Gabon		**Franceville 2000:** Transgabonais was awarded a 20-year concession to rehabilitate and operate the railway that linked Owendo to Franceville. In 2003 the concession contract was terminated due to non-accountability of activities and bad railway maintenance and temporarily granted to Compagnie minière de l'Ogooue (Comilog), the South African subsidiary of the French group Eramet. Comilog was expected to operate the railway until end 2005. Eventually, in August 2005, a 30-year concession returned toTransgabonais.	**Gabon Ports, 2003:** The Spanish group PIP signed a 25-year concession with the Gabon government of the freight port OPRAG , the port facilities of Owendo and Port- Gentil. The concession began on November 1, 2003.
Ghana	**Ghana Civil Aviation Authority** (GCAA), **2005** signed a \$2.25m contract with Sweden-based Swedivia to improve the overall efficiency of the Authority. The contract is scheduled to last until 2009 and will be partly funded by the Swedish International Development Agency (SIDA).		**Tema Port, 2001:** Antrak Ghana and SDV, both part of the Bolore Group, have constructed a new container terminal at the Tema Port. The facility, whose construction was completed in March 2001, occupies a total area of 60,000 square metres. The terminal was officially commissioned in 2002. 2003: Transnet was awarded a 25-year concession to run the port of Tema by the National Ports Authority (NPA) of Ghana.
Cöte d'Ivoire			

Annex A1. **- Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports*** *(cont.)*

	Airports	Railways	Seaports
Kenya	**Nairobi Airport, 2000:** The expansion of the airport was jointly funded by Kenya Airports Authority, the World Bank and private investors (3.8 billion, 750 million, and 3 billion shillings, respectively). **Jomo Kenyatta Airport, 2000:** The consortium headed by the African Cargo Handling Ltd invested $21.4 million in a new cargo terminal. The investment was financed by the Commonwealth Development Corporation, the BOC Cargo Services, the German Investment and Development Company, the Acacia Fund, and Frankfurt Airport. The cargo terminal was commissioned in February.	**Railway Network, 2005:** The South Africa Sheltam Trade Close was awarded a 25-year concession to manage the railway line between Mombassa-Kampala. According to the agreement, Sheltam should invest at least $6 million a year and increase railway traffic by 75% during the forthcoming 5 years.	**Port of Mombasa, 1996,** A UK company Felixstowe Port Consultants (FPC), a subsidiary of Hutchinson Port, was awarded a 2-year management contract for the Container Terminal by the Kenyan Port Authority (KPA). The contract, started in September, was cancelled in September 1997 because of political disorder.
Madagascar	**Antananarivo Airport, 1991:** The Aéroports de Paris Management (ADPM) won a concession contract to run the airport. The concession terminated early in 2006. ADPM held 34% of the shares of the airport company Aeroports de Madagascar (ADEMA), which managed 12 airports in Madagascar. The remaining shares of ADEMA were held by the government of Madagascar.	**Railway Network, 2002:** A project of rehabilitation and maintenance of the rail network for a 20-year period was awarded to Comazar, a joint-venture of Spoornet, the Commonwealth Development Corporation, Makhozi Holdings and Bolloré.	**Toamasina Port, 2005:** The Philippine International Container Terminal Services Inc (ICTS) was awarded a 20-year concession to manage the terminal at the port of Toamasina. ICTS committed to invest more than $300 million until 2007 to foster the Port efficiency.
Malawi			
Mali			

Annex A1. **- Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports*** *(cont.)*

	Airports	Railways	Seaports
Mauritius	**Mauritius Airport, 1999:** In March British Airport Authority plc. (BAA) entered into a 5-year management contract, with a 5-year extension option. The contract was concluded in March of 2004.		**Mauritius Freeport, 1997:** Freeport Operations Mauritius (FOM) was awarded a 60-year contract to build and operate a 60 000 square-metre terminal at the Mauritius Freeport. The construction of the terminal involved $8.5 million in investment and was completed in November 1997. The company planned to expand the facilities in two additional phases, which were to involve an additional investment of $9 million
Morocco		**Railway system, 2005:** The Turkish Polat was awarded the concession to build the first 40km of the 117-km North-East line. The overall project was estimated at €200 million and should be completed by the end of 2007	

Annex A1. - **Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports*** *(cont.)*

	Airports	Railways	Seaports
Mozambique	**Maputo International Airport, 2004:** The Airport Company of South Africa (ACSA) was awarded of a 25-year concession in November to operate and manage Maputo International Airport.	**Railway system, 2004:** The government of Mozambique, owner of CFM, port and rail company, awarded a 25-year concession for the restoration and management of the Beira rail system to the Indian consortium Rites and Ircon International (RII). A new joint venture, CCFB (Companhia Dos Caminhos De Ferro Da Beira), was constituted to implement the project, whose total cost was estimated to around $165 million funded partly by the World Bank ($110 million), and partly by RII ($55 million). **Maputo - Ressano Garcia railway, 2002**, The Mozambique government granted South Africa's rail utility Spoornet and its consortium partner, New Limpopo Bridge Project Investments (NLPI) the operating rights for the railway line, on the border with South Africa. Owing to a dispute between Spoornet and NLPI, the consortium did not take over management of the line and the government cancelled the lease in 2005.	**Maputo Port, 2003:** The government awarded a 15-year concession to Maputo Port Development Company (MPDC) to run the Maputo Port. The company committed to invest around $70 million in rehabilitating and modernizing port infrastructures over the following three years. **Quelimane Port, 2004:** The government awarded a 25-year concession to manage the port of Quelimane to Cornelder Quelimane (CQ), a joint venture between the Dutch company Cornelder B.V. and CFM (Mozambique's state owned port and railway administration).
Niger			

Annex A1. - **Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports*** *(cont.)*

	Airports	Railways	Seaports
Nigeria	**Murtala Mohammed Airport, 2001:** In September, the Nigerian government signed a BOT contract for the construction and subsequent operation of the new Murtala Mohammed Domestic Airport Terminal 1, Ikeja Lagos, authorising Sanderton Ventures Ltd -a Nigerian company- jointly with its Canadian partners, to finance, design and build the new airport terminal within 18 months. The consortium also was authorized to operate and manage the airport over a 10-year period from construction completion. **Akwa Ibom State, 2005:** The Government of Akwa Ibom State awarded a $125 million contract to DynCorp International (US) for the construction of an international airport. It is the first privately managed airport in the country. First aircraft landings and take-offs are scheduled for December 2006.	**Lagos, 2005:** The city of Lagos signed a $24.5 million contract with a US corporation for the construction of a railway.	**Lagos New Port, 2005:** In February the Federal Government awarded a 25-year concession to the Grimaldi Group, the Italian shipping company, for the construction of a new port on a BOT basis. **Apapa Port, 2005:** In September AP Moller Finance, a private Danish corporation, was awarded a 25-year concession to manage the port.
Rwanda			
Senegal	**Dakar, 2005:** Houston Airports System (HAS) signed an international co-operation agreement with National Airports Authority of Senegal, for 'the exchange of ideas and information'.		**Dakar Port, 2006:** rehabilitation of the Port autonome de Dakar is planned. The project will be funded partly by the West African Development Bank (80%) and with the own port's fund (20%).

Annex A1. - Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports* *(cont.)*

	Airports	Railways	Seaports
South Africa	**Mpumalanga Airport, 2001:** Asea Brown Boveri (ABB) undertook a BOT project for the new Mpumalanga Airport, located close to Nelspruit. The project required an investment of $34 million. Construction works started in June 2001 and were completed by September 2002. Johannesburg, 2005: Aeroporti di Roma International acquired 20% of Airports Company of South Africa (ACSA), the airports operator, for $165.7 million (R 819 million). In September Aeroporti di Roma agreed to sell its stake to the Public Investment Corporation for ZAR 1.675 billion.		
Tanzania	**Kilimanjaro International Airport, 1998:** Kilimanjaro Airports Development Company (KADCO) was granted a 25-year concession to operate Tanzania's Kilimanjaro international airport in a joint venture with the Tanzanian Government. KADCO had to upgrade the 3.6 km runway and the terminal facilities, implying a total investment of $11.5 million. KADCO is a consortium between Mott MacDonald (UK), Inter Consult (Tanzania) and the government.		**Dar-es-Salaam Port 2000:** Tanzania International Container Terminal Services Ltd (TICTS), a group consisting of International Container Terminal Services Inc (ICTSI), ICTSI International Holdings Corp (IIHC), and Vertex Financial Services Ltd, won the concession to manage and operate the Tanzania Harbours Authority's Dar es Salaam Port Container Terminal.

Annex A1. **- Completed and Ongoing Public-private partnerships in African Airports, Railways and Seaports*** *(cont.)*

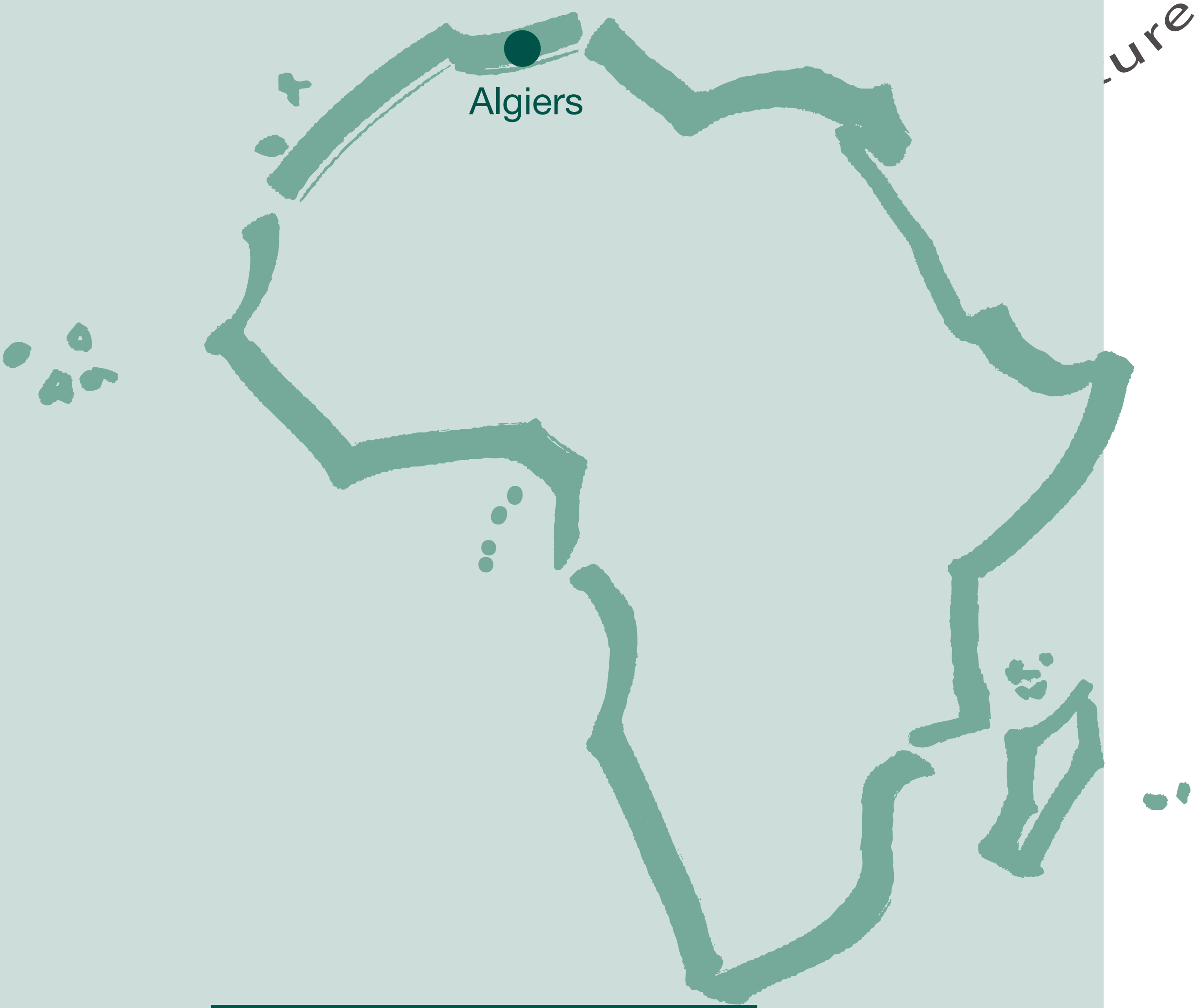
	Airports	Railways	Seaports
Tunisia	**Enfidha, 2006:** A new airport is to be constructed at Enfidha, 70 km south of Tunis, through a 40-year Build-Operate-Transfer (BOT) arrangement. When it opens in 2008, its Initial capacity will be 5 million passengers per annum, rising to 30 million by 2040.		
Uganda			
Zambia	**Lusaka International Airport, 2005:** Work for Lusaka International Airport, which was undertaken by G.M. International in joint a venture with Sarroch Granulati srl, mainly included the rehabilitation of the taxi way. An amount of €2 750 000 has been allocated for this project.		

*This list is not exhaustive.

Source: Derived from the World Bank Private Participation in Infrastructure (PPI) Project Database, national sources and *Marchés Tropicaux.*

Part Two

Algeria



key figures

• Land area, thousands of km²	2 382
• Population, thousands (2005)	32 854
• GDP per capita, $ PPP valuation (2005)	6 504
• Life expectancy (2000-2005)	71
• Illiteracy rate (2005)	27.9

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/047117560050

Algeria

ALGERIA'S ECONOMIC GROWTH HAS continued to be sustained mainly by the ongoing increase in the volume and prices of its oil and gas exports, which have enabled the country to improve its external position considerably. This positive international climate, along with agricultural growth above 2 per cent in 2004, has meant that Algeria's GDP grew by 5.2 per cent in 2004 and the rate is expected to be 5.4 per cent in 2005. These positive results should continue as long as trade conditions remain favourable.

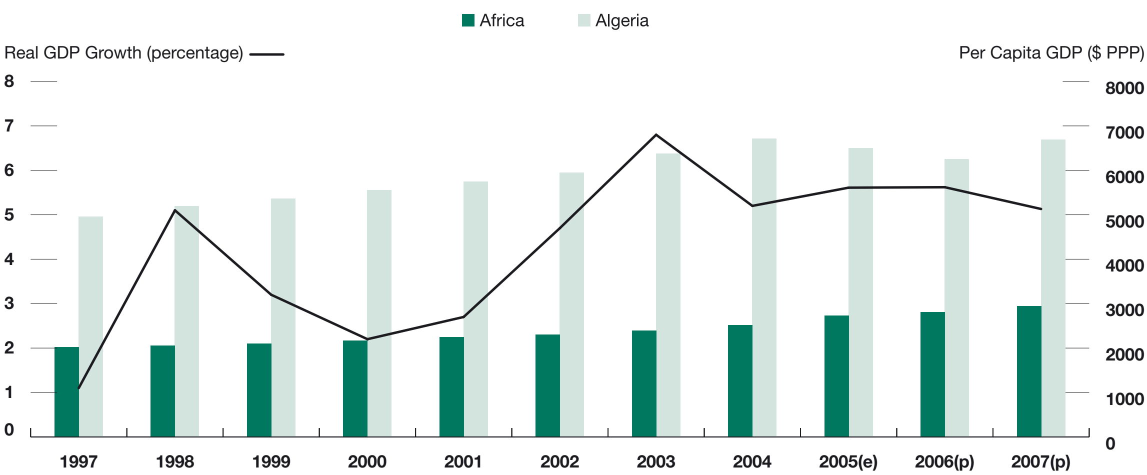
This relatively comfortable financial situation led the authorities to pursue an expansionist budgetary policy and to launch the Complementary Plan for Growth Support (Programme complémentaire de soutien à la croissance – PCSC), which anticipates public spending on equipment for the period 2005/09 at $50 billion. The main objectives of this programme are the improvement of social conditions and a reduction in the rate of unemployment.

The oil and gas sector is still the driving force in the Algerian economy and contributed over 25 per cent to overall growth.

Oil prices reached historic levels in 2005, which, despite a significant rise in imports, enabled Algeria to improve its current external balance. The present prudent management of oil income has enabled Algeria to reduce its debt while maintaining good reserves. Thanks to the restrictive monetary policy of the Bank of Algeria, inflation has been kept under control at the respective moderate rates of 3.6 per cent in 2004 and 5 per cent in 2005.

However, although Algeria has succeeded in strengthening its macroeconomic stability, it has not yet succeeded in removing existing economic constraints to sustained growth. Accelerated structural and institutional reforms — particularly modernisation of the banking sector, reduced participation of the State in economic life, and continued liberalisation of foreign trade — remain preconditions for making the transition to a market economy and diversifying economic activity in order to guarantee lasting growth.

Figure 1 - Real GDP Growth and Per Capita GDP
($ PPP at current prices)



Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

Irrespective of climate conditions, overall growth in the Algerian economy has become highly dependent on growth in the construction, oil and gas sectors, due to active State policy in this respect and the wealth of the country's mineral resource reserves.

After an exceptional year in 2003, growth in the agricultural sector fell to only 2.2 per cent in 2004, compared with 17 per cent in 2003. Nevertheless, production levels remain good, especially for cereals, where production reached 40 million tonnes, one of the highest levels since the record years of 1996 and 2003. Such good performance has resulted from favourable climatic conditions and the effects of national support programmes launched within the framework of the National Plan for Agricultural Development (Plan national de développement de l'agriculture - PNDA).

In 2004, the agricultural sector accounted for about 9 per cent of GDP, and contributed 1.7 per cent to overall growth. However, this dynamism subsequently slackened off, and agriculture's share in GDP was only 7.6 per cent in 2005.

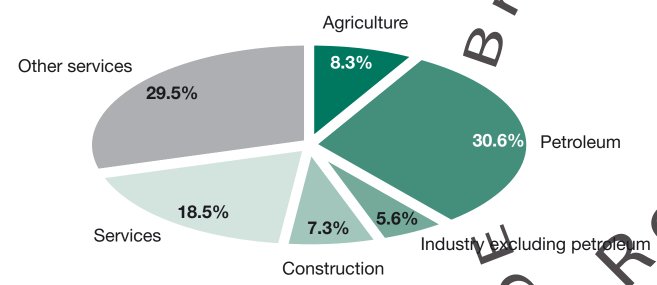
The oil and gas sector, which is the driving force behind growth in the Algerian economy, accounted for 38 per cent of GDP in 2004 and contributed over 25 per cent to overall growth. In spite of a 12 per cent drop in refining and the production of liquefied natural gas because of the explosion at the Skikda factory in January 2004, this sector showed real growth of 3.3 per cent thanks to increases in the production of petroleum and natural gas. Algeria's production of crude oil reached 1.3 million barrels per day at the end of 2004, and Algeria therefore presented a request for an increase in its production quota to the Organization of Petroleum Exporting Countries (OPEC). This dynamism continued throughout the first six months of 2005, when production of crude oil and gross production of natural gas registered growth rates of 2.6 per cent and 9.5 per cent respectively, compared with the first six months of 2004. Over the same period, the total production of primary energy (crude oil and condensates, natural gas and liquefied petroleum gas [LPG]) grew by 5.7 per cent overall, to reach 89.8 million tonnes of oil equivalent (TOE) during the first six months of 2005. However, the production of refined products during the first six months of 2005 failed to reach the same level as in the first six months of 2004.

The construction sector received special attention from the government because of the country's lack of housing and basic infrastructure. This sector has maintained remarkable growth over recent years, reaching 7.5 per cent in 2004 and 5.8 per cent in 2003. Over the period 2005/09, this sector will receive almost half of the total budget allocated to the PCSC programme, during which time the completion of one million housing units is planned. As of 31 December 2004, 345 000 housing units were in the process of being built. This sector is expected to absorb a significant part of unemployed manpower, and to reinforce growth through the subsequent boost given to consumption.

With a growth rate of 1.9 per cent, the industrial sector excluding oil and gas and construction has shown the poorest sectoral growth performance; these poor results are expected to continue in 2005, with growth estimated at 1.6 per cent. The industrial sector excluding oil and gas and construction only made a small contribution to overall growth in 2004, accounting for only 6 per cent of GDP. Private sector share in gross industrial value added, excluding oil and gas, remained stagnant. Following a remarkable increase at the end of the 1990s, after 2002, this share settled at around 78 per cent for construction and at 33 per cent for other industries, excluding oil and gas. The performance of the private sector has nevertheless improved: its real growth rate was 3.5 per cent in 2004, whereas public sector growth was only 0.9 per cent. Since the year 2000, the private sector has concentrated on agribusiness production, which accounted for almost 78 per cent of value added in 2004, and on the textile and leather sectors, which contributed 76 and 83 per cent respectively of value added for the same year.

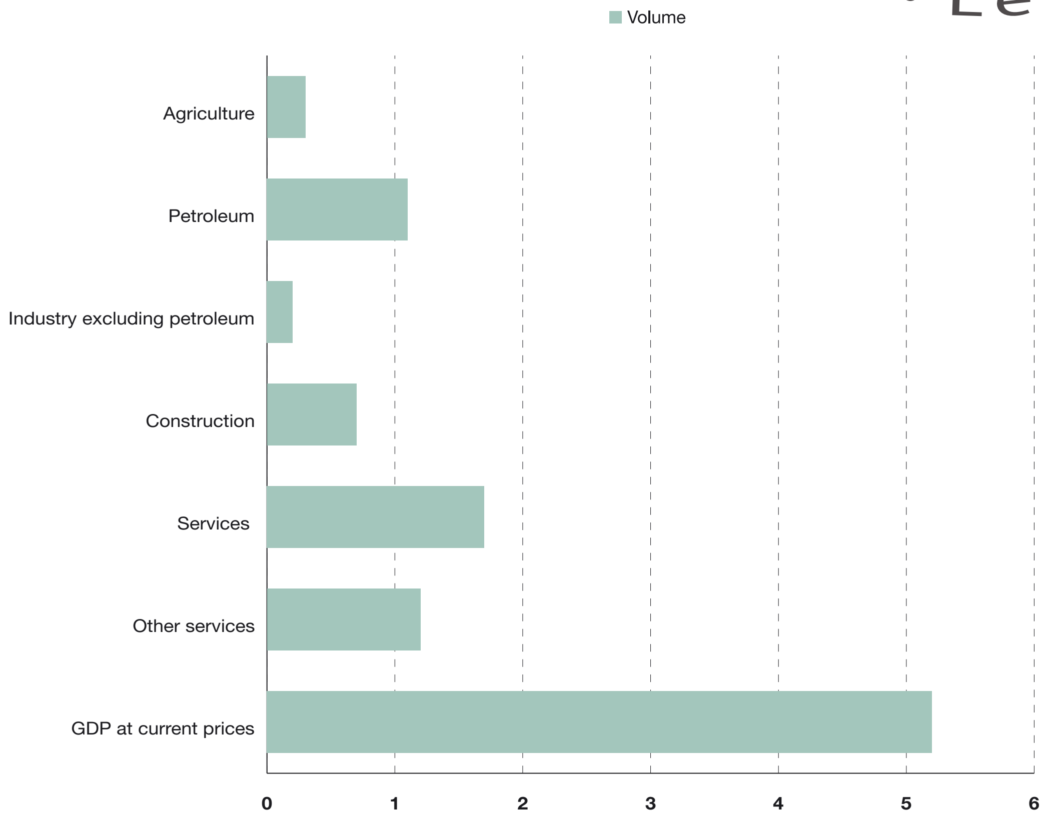
The services sector grew 7.6 per cent in 2004, representing an increase of 6.7 per cent compared with

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on IMF data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on Ministry of Finance and National Office of Statistics data.

the rate for 2003. This sector contributed more than half of the economy's overall growth and accounted for about 38 per cent of GDP; the sector also employs more than 53 per cent of the total working population.

To improve external competitiveness for enterprises and enable them to face up to increased competition resulting from the association agreement with the European Union concluded in September 2005, several upgrading programmes for public and private enterprises have been launched, notably: the Programme for industrial competitiveness managed by the Ministry of Industry with the assistance of the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO); and the Euro-development programme for small and medium-sized enterprises (Programme euro développement PME – EDPME), with the support of the European Commission. As regards the first of these, only 69 enterprises have been involved in the actual upgrading phase, and as regards the second, both the Ministry of Small and Medium-sized Enterprises and Handicrafts (ministère des PMEet de l'Artisanat) and the European Commission delegation have admitted that the first phase has encountered difficulties: although the programme comes to an end in 2006, more than half of the work done remained at the analysis and diagnostic stages.

In addition to these co-operation programmes, a new programme for upgrading small and medium-sized enterprises was announced in June 2005 and entrusted to the national Agency for the development of small and medium-sized enterprises (Agence nationale de développement des PME) set up for this purpose.

Demand composition underlines the continued effort of accumulation expressed by investment rates of over 30 per cent in recent years. In 2004, as stocks grew, 32 per cent of GDP was invested. However, total consumption went down from 53 per cent of GDP in 2004 to 47.7 per cent in 2005, and it is predicted that it will represent 48.2 per cent in 2006.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**23.6**	**30.9**	**30.0**	**32.0**	**30.5**	**30.6**	**32.3**
Public	7.4	10.3	11.1	11.5	11.0	10.9	11.2
Private	16.2	20.6	18.9	20.4	19.5	19.7	21.1
Consumption	**68.0**	**59.2**	**55.1**	**53.0**	**47.7**	**48.2**	**49.7**
Public	16.5	15.4	14.8	14.5	12.7	12.3	12.2
Private	51.4	43.8	40.4	38.5	35.0	35.9	37.5
External sector	**8.4**	**9.9**	**14.8**	**15.1**	**21.8**	**21.2**	**18.0**
Exports	30.4	35.4	38.6	40.4	45.1	43.9	42.0
Imports	-22.1	-25.5	-23.8	-25.4	-23.3	-22.8	-24.1

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Macroeconomic Policies

Fiscal Policy

Over the recent period, almost 70 per cent of public revenue has been oil fiscal revenue. The sudden rises in the price of oil considerably increased State revenue and caused a remarkable improvement in public finances. Oil prices went up from an average of $28.9 per barrel in 2003 to $38.6 in 2004. In the first six months of 2005, the average price was $49.6. Nevertheless, except for the complementary finance law of 2002, as a precautionary measure, finance laws since 2000 (including that of 2006) have been drafted on the basis of an oil price of $19 per barrel, and any value added that results from a higher level of revenue from oil taxes is added to the revenue regulation fund (Fonds de régulation des recettes –FRR) which was set up in the year 2000.

In 2004, tax revenue amounted to 36 per cent of GDP, i.e. 2 226 billion dinars. Ordinary revenue grew by 5.3 per cent, while resources from oil revenue increased by 16.3 per cent.

Budgetary expenditure increased by 4 per cent in 2004, reaching 1 832 billion dinars and representing 30.7 per cent of GDP. Equipment takes a predominant place in the structure of State expenditure as a consequence of the Economic Recovery Programme (Programme de soutien à la relance économique – PSRE), and further similar effects are expected after 2005 with the launching of the PCSC. This programme foresees expenditure on equipment of 4 202.75 billion

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**33.3**	**35.3**	**38.3**	**35.8**	**41.0**	**40.8**	**39.3**
Tax revenue	10.9	10.2	9.5	8.8	8.5	8.6	8.9
Oil revenue	22.4	25.1	28.7	27.0	32.5	32.2	30.4
Total expenditure and net lending[a]	**31.0**	**35.1**	**33.3**	**30.7**	**27.3**	**26.6**	**27.1**
Current expenditure	23.8	24.4	22.2	19.1	16.4	15.9	15.9
Excluding interest	*19.8*	*21.4*	*19.9*	*17.4*	*15.3*	*15.0*	*15.1*
Wages and salaries	8.8	7.6	7.2	7.3	6.3	6.1	6.0
Interest	3.9	3.0	2.2	1.8	1.1	0.9	0.9
Capital expenditure	7.3	10.0	10.5	11.4	10.9	10.7	11.1
Primary balance	**6.3**	**3.3**	**7.2**	**6.9**	**14.8**	**15.1**	**13.1**
Overall balance	**2.4**	**0.2**	**5.0**	**5.1**	**13.7**	**14.2**	**12.2**

a. Only major items are reported.
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

dinars over the period 2005/09, as follows: 40 per cent for the socio-educational infrastructure development (housing, education, health, regional development); 40.5 per cent for basic infrastructure (transport, public works, water), and almost 8 per cent for support to agriculture. As regards operating costs, these amounted to 1 224 billion dinars in 2004, representing an increase of 7.5 per cent over 2003. Expenditure on equipment increased in 2005, the first year of implementation of the PCSC, and is expected to exceed operating costs for the first time in 2006.

Monetary Policy

The Bank of Algeria continues to conduct a prudent monetary policy aimed at controlling growth in the money supply and bank liquidity. Bank liquidity has remained high since 2002, but has been progressively reduced by an active policy on the part of the Bank of Algeria to "mop up" liquidity. This, combined with an increase in the statutory reserves ratio, led to a reduction in the growth of excess bank liquidity: bank deposits with the Bank of Algeria had increased from 611 billion dinars at the end of 2003 to 713.5 billion dinars at the end of 2004. Three hundred billion dinars of these deposits were due to the absorption of liquidity, for which the interest rate was reduced to 0.75 per cent in December 2004.

The money supply M2 was estimated at 3 738 billion dinars at the end of 2004. It increased during that year at the rate of 11.4 per cent. It should however be noted that the rate of monetary expansion has been reduced since 2001, with the aim of reducing inflationary tensions in an economic climate marked by a rise in public expenditure. The money supply is boosted chiefly by external assets; these represented 83.1 per cent of M2 at the end of 2004, which means that foreign exchange reserves form the main money supply counterpart. Efforts to control the money supply gave good price index results, since the inflation rate was only 3.6 per cent in 2004. It should rise to around 5 per cent in 2005.

Monetary stability is accompanied by controlled floating of the dinar aimed at stabilising the real effective exchange rate (REER) at its long-term equilibrium level. The level of the REER at the end of 2003 is taken as a reference for this. The exchange rate of the dinar against the dollar remained stable in 2004 and 2005 with an end-of-year (December) exchange quotation of 72.67 and 73.51 dinars for $1, however the exchange rate of the dinar against the euro rose from 86.32 dinars for €1 in December 2003 to 97.42 at the end of December 2004. It fell during 2005, and was at 87.16 dinars for €1 in December 2005.

External Position

Algeria's exports have continued to be almost entirely composed of oil and gas products. Owing to the price rise in the barrel of Sahel blend oil, which reached $47.2

during the first six months of 2005, the value of exports was $32.22 billion in 2004 (of which $31.5 billion from oil and gas), representing a remarkable annual increase of 31 per cent. However, exports excluding oil and gas represented less than 2 per cent of the total, presenting the same urgent and as yet unresolved question regarding export diversification and the external competitiveness of the economy in the present context of opening up to international competition. Simultaneously with the sharp rise in the price of oil, imports of goods and services increased substantially to a value of $21.81 billion in 2004. This increase of over 34 per cent contrasted with the relatively modest growth of preceding years (12 per cent in 2003). During the first six months of 2005, imports of goods alone reached $10.28 billion. The import structure shows the predominance of capital goods (39 per cent) and intermediate goods (25 per cent). Food products represented almost 20 per cent of the total. Imports of goods and services have nevertheless shown relative stability at around 25 per cent of GDP between 2002 and 2004.

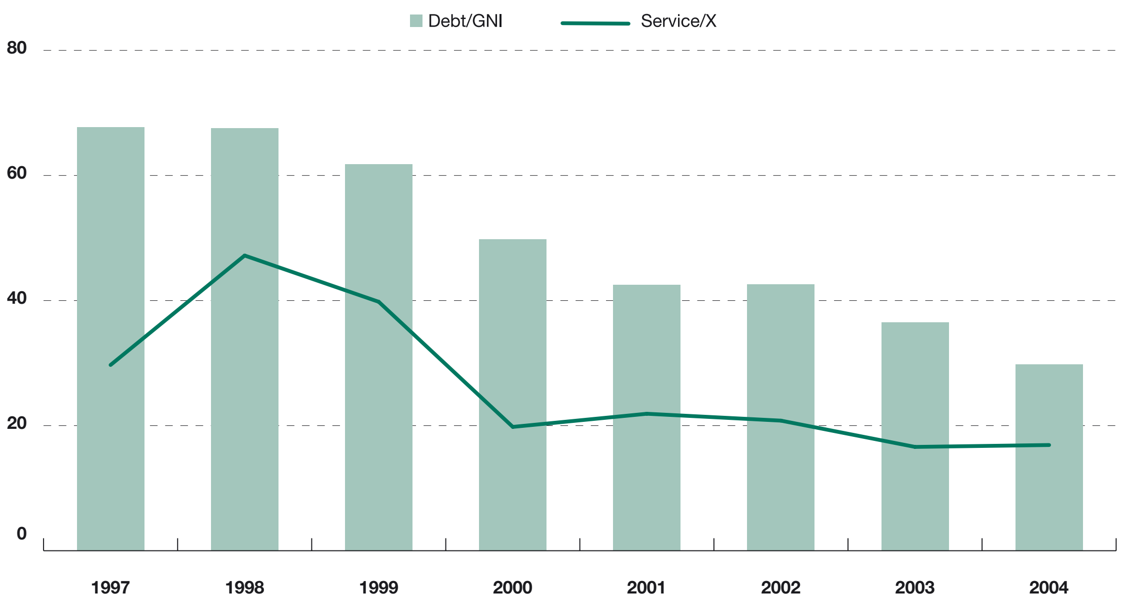
These flow changes led to a trade surplus of $14.27 billion in 2004. In the course of the same year, imports of services rose by $3.86 billion ($2.92 billion in 2003), while transfers by Sonatrach's associates reached $3.12 billion in 2004, compared with $2.2 billion in 2003. The current account nevertheless showed a positive balance and represented 15 per cent of GDP in 2004.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	11.7	11.8	16.4	18.5	25.0	24.4	21.4
Exports of goods (f.o.b.)	28.5	32.9	36.0	39.3	44.1	43.0	41.1
Imports of goods (f.o.b.)	-16.9	-21.1	-19.6	-20.8	-19.1	-18.6	-19.7
Services	-2.1	-2.1	-2.0	-2.3			
Factor income	-4.6	-3.9	-4.0	-3.8			
Current transfers	2.2	1.9	2.6	2.5			
Current account balance	**7.2**	**7.7**	**13.0**	**15.0**			

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

Algeria's principal trade partner is the European Union, which supplied 56 per cent of its imports and received 58 per cent of its exports in 2004. The United States was the main importing country for Algerian exports, while France was Algeria's principal supplier.

Structural Issues

Despite the progress that has undeniably been made over recent years in the transition to a market economy, some structural reforms essential to the development of the private sector and the diversification of the economy have fallen behind schedule and remain a priority.

Recent Developments

Algeria has made significant progress as regards macroeconomic stabilisation, and intends now to pursue structural reforms, particularly in the areas of privatisation of State-owned enterprises and finance and banking.

Major delays in privatisation have however occurred, compromising the rehabilitation of public economic enterprises (Entreprises publiques économiques – EPE) and the re-organisation of the financial sector.

Legislative[1] and organisational measures have been taken to allow the EPE to sell their assets and to open up their capital to private ownership. Other measures relate to various local authority activities. The final stage in the process was initiated by ruling 01-04 of 20 August 2001, which brought totally or partially State-owned enterprises legally into line with private commercial companies. There is no restriction on foreign investment except in the oil and gas sector, where foreign investment is limited to partnership agreements. Marked progress has been made in providing information on privatisation (use of Internet for access to very detailed information on enterprises which can be privatised — turnover, market share, etc.). The time taken for the privatisation process has been reduced to less than six months as a result of changes made to the process. The National Privatisation Council (Conseil national de la privatisation – CNP) meets twice a month. Buyers are only obliged to make an initial payment of 30 per cent, and payment facilities are available for the remainder of buy-out costs. In order to safeguard employment, the government requires prospective buyers to present a five-year plan.

At the beginning of February 2005, 111 privatisation operations had been dealt with and finalised. Fifty-one per cent of these had been totally privatised, 21 per cent partially, and 18 per cent privatised as partnerships. The clause on safeguarding employment is an important aspect of these operations. The Ministerial department has announced the net creation of 2 000 jobs. From 2003 to December 2005, 270 public enterprises were privatised, with 102 of these privatisations taking place in 2005 alone. It is expected that 300 public enterprises will be involved in the programme of privatisation during the first six months of 2006. Between 2003 and 2005, privatisation earned $800 million for the Treasury, made possible $1 billion of investment, and created 7 000 new jobs.

The financial sector comprises 30 institutions made up of banks and public, private, and government-controlled companies. The network spreads over 1 050 branches, 1 004 of which belong to public banks. The agencies belonging to the private banks are mostly located in large towns. The bank ratio is around 30 000 inhabitants per agency. This is much higher than in Europe, where the bank ratio is 5 000, or even in Tunisia (10 000), demonstrating the insufficient distribution of banking facilities.

Public banks dominate the market, holding 94.4 per cent of resources, representing 42 per cent of GDP

1. The law on commercial State capital established the principle of the State's disengagement from the economic sphere and defines the conditions of privatisation. The first stage in the process of privatisation was launched by the complementary finance act of 1994. However, the most important law on privatisation in Algeria is ruling 95-22 of 26 August 1995, along with the amendment of ruling 97-12 of 19 March 1997.

and 62 per cent of the money supply. Seventy-two per cent of deposits are fixed-term and 28 per cent are current account deposits. The structure of credit distribution according to legal category is similar to that of accumulation of resources according to the public/private banking criterion: public banks provide 93 per cent of loans. Most of the loans are medium-term, which demonstrates the weakness of the investment banks. During the privatisation process, a system of direct subsidies as a substitute for bank financing is envisaged, for companies that are "unbankable". Although the finance law of 2005 set out the terms of this system of subsidies, so far, only the stage of selecting eligible companies has been reached.

The banking sector is probably the sector that has lagged most in Algeria. There have been numerous scandals in both public and private banks. The Khalifa Bank, the Commercial and Industrial Bank of Algeria (Banque commerciale et industrielle d'Algérie – BCIA) and two other private banks have lost their licences. The authorities also plan to dispose of public banks, and selling these to strategic foreign buyers will probably create a spin-off effect on the other banks, inciting them to improve their management. The Crédit populaire d'Algérie (CPA) and the Banque de développement local (BDL) have been re-organised with a view to being privatised.

The financial market is still in its infancy. The Treasury issues short- and long-term bonds (up to ten years), which amounted to 800 billion in volume in 2004. Only three securities are listed on the stock exchange. Total share value is 0.25 per cent of GDP. The bond market has been fairly dynamic due to issues by the mortgage refinance company Société de refinancement hypothécaire (SRH), Sonelgaz, Air Algérie and Sonatrach, and has now reached 100 billion dinars. These bonds are not quoted on the stock exchange. New financial instruments have now been introduced. Venture capital has not yet appeared on the Algerian financial scene, but a bill concerning this was adopted in October 2005 by the Council of State and the Cabinet. An agency and a fund providing guarantees to small and medium-sized enterprises (the Agence de garantie des PME and the Fonds de garantie pour les PME) have been set up, and the latter is already operational. Finally, draft laws on factoring are in preparation.

The insurance sector is composed of four public companies, six private companies[2], and two mutual insurance companies. The public companies are the market leaders, with 443 agencies and 244 other agents, as compared with 201 and 200 respectively for the others. The performance of insurance as a product is poor, providing only 0.63 per cent of GDP in 2003, compared with 3 per cent for Morocco and 1.8 per cent for Tunisia. Automobile insurance and industrial risk insurance lead the market, with a share of 35 and 36 per cent respectively.

Other important measures have been taken. The banking and financial system now has legal instruments to combat money-laundering, and likewise to this effect banking secrecy has been lifted. From 2006, the system will be thoroughly modernised (secure payment cards, withdrawals and distance transfers, guaranteed cheques).

In the agricultural sector, implementation of the National Plan for Agricultural Development (PNDA) led to an increase in the supply of meat, fruit and vegetables. At post-production level, the food industry has shown much dynamism. Cereal production nevertheless remains very dependent on climatic conditions. The PCSC for 2005/09 includes a total grant of 357 billion dinars for the agricultural sector. It is hoped that this will improve food security, create the equivalent of more than 900 000 jobs (of which at least 360 000 will be permanent) and promote human development, since the plan aims to reach 400 000 rural households, i.e. 25 per cent of the rural population.

2. The public companies are: SAA, CAAR, CAAT and CCR. The private companies are TRUST Algeria, CIAR, BARAKA, 2A, GAM and the company MÉDITERRANÉENNE.

Ninety per cent of the private sector is made up of micro-enterprises, which employ 35 per cent of the sector's workers. Thirty-two per cent of these enterprises are manufacturing companies (essentially textiles and leather). The remainder are in construction and services. This structure clearly demonstrates that private investment is directed towards activities which are by nature not much open to foreign competition (non-tradable goods sector) and where cost-recovery is rapid. According to social security data, the number of small and medium-sized enterprises, excluding crafts, stood at 225 449 in 2004, employing 592 758 workers.

In 1980 already, the private sector produced 49 per cent of GDP excluding oil and gas. This ratio was nearly 90 per cent in 1985. However, the sector's dynamism has since markedly diminished: growth was only 3.7 per cent in 2003 and 3.4 per cent in 2004, which was lower than the growth rate of GDP. Added to the unfavourable investment climate is the very nature of the Algerian private sector, which tends to prefer private income-generation, speculation, and family ownership, all of which are major handicaps to the emergence of modern enterprises. Naturally, the private sector, like the public sector, also suffers from the general constraints of the business climate.

A number of measures is presently under way in an attempt to improve matters. In banking, for example, it is now illegal to carry out any cash transaction over 50 000 dinars. The legal vacuum that existed where the laundering of capital was concerned, has been filled by the foundation law recently established for the prevention and combating of money-laundering and the financing of terrorism (Act No. 05-01 of 6 February 2005). The finance law of 2003 also lifted bank secrecy. An anti-corruption act was presented at the autumn session of the National People's Assembly, but its implementation has been held up by the provisions relating to the declaration of the personal assets of senior civil servants and representatives. This law is currently at Senate level.

It is as yet difficult to make any assessment regarding Algeria's integration into the Euromed zone, since the association agreement with the European Union only came into effect in September 2005. No report on the impact of this agreement has been made public. Delays in negotiations on the Arab Maghreb Union have prevented the countries of the region from deriving full benefits from the economic effects of the association agreement. A US Congress commission has offered its services to facilitate dealings between the three countries of Central Maghreb (Algeria, Tunisia and Morocco). Algeria's membership of the World Trade Organization (WTO) has been postponed from year to year: work on this only began in 1998, although the working groups were set up in 1987. Algeria's membership of the Organization has come up against problems in the areas of intellectual property, the opening up of the services sector, technical obstacles to trade, and oil and gas prices.

Transport Infrastructure

Algeria possesses a transport infrastructure as follows: an asphalt road network 103 000 km long which is one of the densest in Africa and is fairly well interlinked; a rail network 4 000 km long (rail links are mostly situated along the coast and serve the main port towns); 10 commercial ports, two of which specialise in oil and gas; 35 fishing ports; and 35 airports, including 13 international airports. However, this infrastructure is badly maintained and insufficient to meet demand. The road and rail networks are lagging behind. The road network is dilapidated and inadequate; east-west traffic uses the northerly route, on which there is frequent congestion. The abandonment of the east-west motorway project at the beginning of the 1980s has handicapped the economic construction of the Maghreb countries, and by extension, the development of relations between the Maghreb and Europe. As regards the rail network, only about 300 km have been built since the country became independent in1962.

Delays have built up in the execution of transport infrastructure projects since the end of the 1970s. Large-scale projects were halted because of lack of funding following the collapse of oil prices in the mid-1980s. Particular mention can be made of projects still outstanding from preceding programmes started in the framework of the Economic Recovery

Programme (PSRE) for 2000/04, as well as of other projects that were started well before then. For example, barely 60 per cent of the Bordj — Bou-Arreridj —M'Sila railway line (55 km), which was on the 1989 programme, has been built to date. The Aïn M'Lila — Oum El Bouaghi (68 km) line has met with the same fate, with an implementation rate of 56 per cent since 1989. The most striking example is the rehabilitation project for Algiers airport, only 78 per cent of which had been implemented by September 2005, although the project was launched in the mid-1980s.

The PCSC for 2005/09 allocates 31 per cent of a total budget of almost $60 billion to infrastructure. Transport infrastructure receives 16 per cent (about $10 billion) of the total programme budget and 41.1 per cent of the budget reserved for infrastructure is thus allocated, making it a real priority. Taken together, various types of work (replacement, modernisation, electrification, etc.) will be started on a total of 5 500 km of railway line. With the inclusion of the east-west line, this programme demonstrates a serious attempt to make the upland regions accessible by means of a series of connections linking dozens of small and medium-sized towns to the rail network. Moreover, goods lines will promote the development of the Bir El Atr phosphate complex, the Elma Abiod cement works, the Bellara phosphoric acid complex, and many other economic activities.

For urban transport, the programme aims to develop interconnections between different modes of transport and improve services in high population density zones in order to promote greater mobility. The capital Algiers will be a beneficiary of these interconnections, in the form of suburban trains, a tramway, an underground system, buses and a cable car route.

The present comfortable situation with regard to public finance has enabled the authorities to undertake costly large-scale works using public funding without fear of upsetting the public finance balance. Nevertheless, while financing problems in the medium-term are more or less resolved, the programme faces other problems of a more structural nature. Delays in implementation have created enormous problems in investment absorption, and to this end large foreign enterprises have been selected in an attempt to overcome this type of difficulty.

Political and Social Context

The political context has been marked by the re-election of President Abdel Aziz Bouteflika in April 2004 with over 85 per cent of votes. The President's policy has notably been one of economic and political continuity. The PSRE will be followed in 2005/09 by a $60 billion complementary plan which aims to provide the country with a considerable economic and social infrastructure. In the political arena, the President has been pursuing the policy of "national reconciliation" which was begun during the previous mandate. The bill on the Charter for Peace and National Reconciliation was approved by popular referendum in 2005. In the regions, district and departmental (wilaya) elections were held in Kabylie in Autumn 2005; the preceding elections in this region had been boycotted by the population due to the crisis. New councillors should then have replaced the administrators or "un-representatives" (representatives elected with very low participation rates).

The objective of reducing the proportion of the population living below the food poverty threshold (2 100 calories per person per day) from the present day to 2015 was achieved in 2003. The proportion of the population living in poverty increased from 3.6 per cent in 1988 to 5.7 per cent in 1995, but then went down to 3.1 per cent in 2000 and 1.6 per cent in 2004. In absolute terms, the number of those living below the food poverty threshold was reduced by over 62 per cent between 1995 and 2003. For the general poverty threshold, the rate was 12.1 per cent in 2000, that is 3 718 600 persons, compared with 14.1 per cent in 1995. In 2004, the rate was only 6.8 per cent.

Exceptional revenue from oil and gas exports enabled launching of the PSRE which, according to data from the National Economic and Social Centre (Centre national économique et social – CNES), resulted in the creation of 728 000 jobs. In addition, the cost of job creation programmes[3] almost doubled between 1997 and 2003. However, employment subsidies only represented 0.4 per cent of GDP, compared with 3 to 5 per cent for OECD countries (3 per cent in France and 5.5 per cent in Denmark). An increase of 25 per cent in the guaranteed minimum wage from January 2004 has created a perceptible increase in purchasing power, if the relatively low rate of inflation is taken into account.

The relatively comfortable public finance situation has enabled increased social support payments. The fraction of social transfers in gross household revenue went up from 16.2 per cent in 1996 to 20.3 per cent in 2000, and to 23 per cent in 2004. The occupancy rate (taux d'occcupation par logement – TOL) went down from 7 to 5.5 persons between 1999 and 2004 as a consequence of the construction of 1 million homes. It is expected to go down further by 2009, to 5 persons, with the construction of a further 1 million homes.

The government's efforts to set up a system of compulsory free education has resulted in the school attendance of almost all children between 6 and 12 years old. The number of pupils aged between 6 and 15 years went up from 4 189 000 in 1990 to 4 508 000 in 2003/04, according to a report by the CNES. The low growth rate reflects the demographic transition, which reached its peak in 1987.

The gross admission rate, i.e. the rate of children enrolled irrespective of age compared with that of children who are of legal age for enrolment, is 104 per cent. This figure shows that the system is able to absorb all children of school age, without discrimination. If only the net rate is taken into account, i.e. only children of school age, 78 per cent of girls are attending school, and 81.5 per cent of boys. The difference between the gross and net rates clearly shows that there is disregard for the rules regarding school admission, since 24.2 per cent of children enrolled are under 6 years of age, while 20 per cent of children of enrolment age have not been enrolled. Geographic criteria are important for coverage — where the enrolment rate is only 56.5 per cent for the wilaya of Illizi, it is at 94.7 per cent for the wilaya of Skikda.

The pupil/teacher ratio in primary education (27) and the average ratio (21.3) remained fairly low in 2004. This ratio has not yet registered the full benefits of the demographic transition, but it should improve in the medium-term due to these effects and those of expected investments in education: the education sector will receive 10.5 per cent ($6 billion) of the total PCSC budget in 2005/09.

The literacy rate is 26.5 per cent. The rate for women is much lower: 35 per cent of women are illiterate, compared with only 18 per cent of men. There is also a significant difference between urban and rural areas: 13.5 and 24.6 per cent respectively. Women are at a greater disadvantage in rural areas since 47 per cent of rural women are illiterate, compared with 26.6 in urban areas. In order to halve the illiteracy rate by the year 2013, the authorities have adopted a strategy to take in hand between 150 000-200 000 persons per annum. A pilot project has been initiated by the National Literacy Office (Office national d'alphabétisation) in co-operation with the United Nations Children's Fund (UNICEF). Women are a priority in this project: the main objectives are: health and nutrition education, the education of infants, and awareness-raising with respect to pollution problems, home economics, and physical education. School attendance of girls has become a significant trend in Algeria, and the attendance rate of girls in the 6-15 age group has grown faster than that of boys. In 2004, 95 girls per 100 boys attended school, compared with only 81 in 1990/91. Girls represented 58 per cent of A-level (baccalauréat) candidates in 2004. In Algiers, this rate was 65 per cent. The proportion of girls in higher education went up from 52.6 per cent in 2000/01 to 55.4 per cent in 2003/04.

3. These figures refer to the following programmes: the programme for local employment (emplois salariés d'initiative locale – ESIL), the programme for public works requiring intensive labour (travaux d'utilité publique à haute intensité de main-d'œuvre – TUP-HIMO), the pre-employment contract (Contrat Pré-Emploi – CPE), and the plan regarding general interest activities (Activité d'intérêt général – AIG).

Algerian women are playing an increasing role in the workplace at all levels. More and more women are entering socially oriented branches of work, for example, medicine. There are five women in government, and a ministerial department for the family and women's status has been set up. The number of women in Parliament has increased from 14 to 24, and in 2004 a fairly significant number of women were appointed to key administrative posts, especially in the diplomatic corps and in the justice system. Although these are positive changes, they are nevertheless not yet sufficient to make up the differences that still exist.

Since the 1980s, Algeria has entered a phase of demographic transition, with a fall in mortality and a marked fall in the birth rate. This phenomenon has been accompanied by an epidemiological transition characterised by a reduction in endemic communicable diseases and in diseases that can be controlled by vaccination; it has also been accompanied by the appearance of new pathologies, particularly those linked to increased life expectancy. Some emergent diseases, such as AIDS, are giving cause for concern.

The 2002 Pan Arab Project for Family Health (PAPFAM) survey estimated the infant and child mortality rate of children between 0 and 5 years at 38.8 per 1 000 for the whole of the national territory, with an important difference between urban areas (35 per 1 000) and rural areas. The most common causes of morbidity are respiratory and diarrhoeal diseases, but in these, no significant disparity between urban and rural areas was found. In view of the slow progress made to date, it will be difficult to achieve the objectives set for 2015: the rate of infant (0-1 year) mortality was 30.4 per 1 000 in 2004, whereas the objective for 2015 is only 15.6 per thousand. Certain characteristics of infant mortality that were brought out by the 2002 National Survey of Family Health (EASF) allow the issue of infant health to be set in a much wider framework than simply that of medical monitoring. According to the CNES, the probability of a child dying before age 5 when the mother is illiterate is four times higher than that of a child whose mother received secondary or higher education.

As regards prevention, the vaccination programme reaches more than 9 out of 10 children, for all types of vaccine. Eighty-nine per cent of children between 12 and 23 months receive all necessary vaccines, with a significant disparity between urban areas (91 per cent) and rural areas (86 per cent). The survey also showed that 97 per cent of babies born alive had a vaccination record, with only a slight disparity between urban areas (98 per cent) and rural areas (96 per cent).

According to current sources, non-communicable diseases (such as high blood pressure, diabetes, asthma, cancer, etc.) are more prevalent and constitute a more serious health problem than communicable diseases. The treatment costs of these diseases are higher than those of contagious diseases. The STEP survey of 2003 showed that in the population aged between 25 and 64, 15 per cent were smokers, while 16.4 per cent suffered from obesity, 29 per cent from high blood pressure, and 8.9 per cent from diabetes.

The total number of AIDS cases recorded from 1985 to December 2004 was 642, with 28 new cases in 2004. Over the same period, a total of 1 721 HIV-positive cases was recorded, with 266 new cases in 2004. There is concern that there might be an epidemic outburst in the southern regions, since these regions share extensive borders with the Sahel regions, and furthermore, they are transit zones that have intensive migration flows.

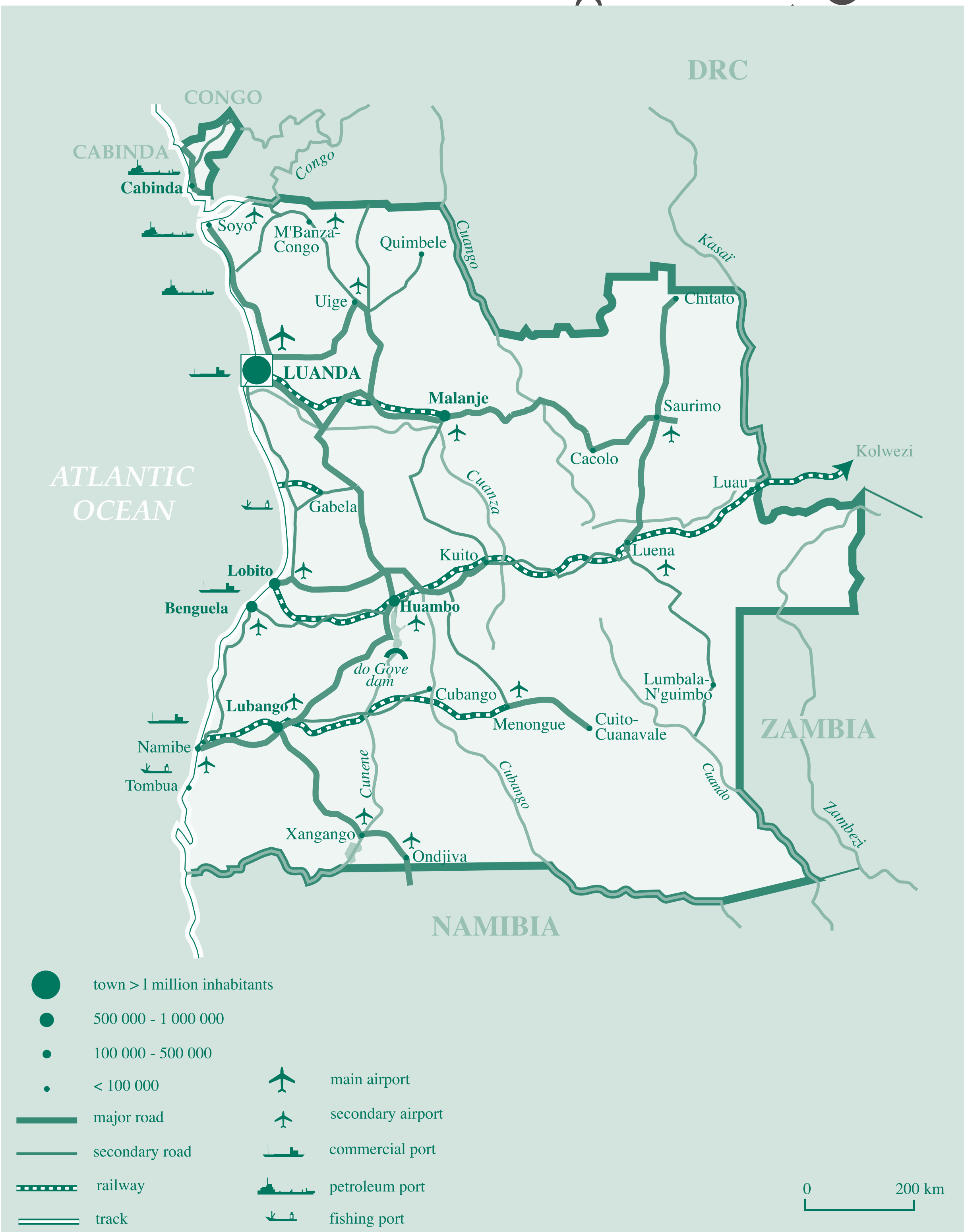
Angola

key figures

• Land area, thousands of km²	1 247
• Population, thousands (2005)	15 941
• GDP per capita, $ PPP valuation (2005)	3 363
• Life expectancy (2000-2005)	40.7
• Illiteracy rate (2005)	...

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/344387777260

Angola



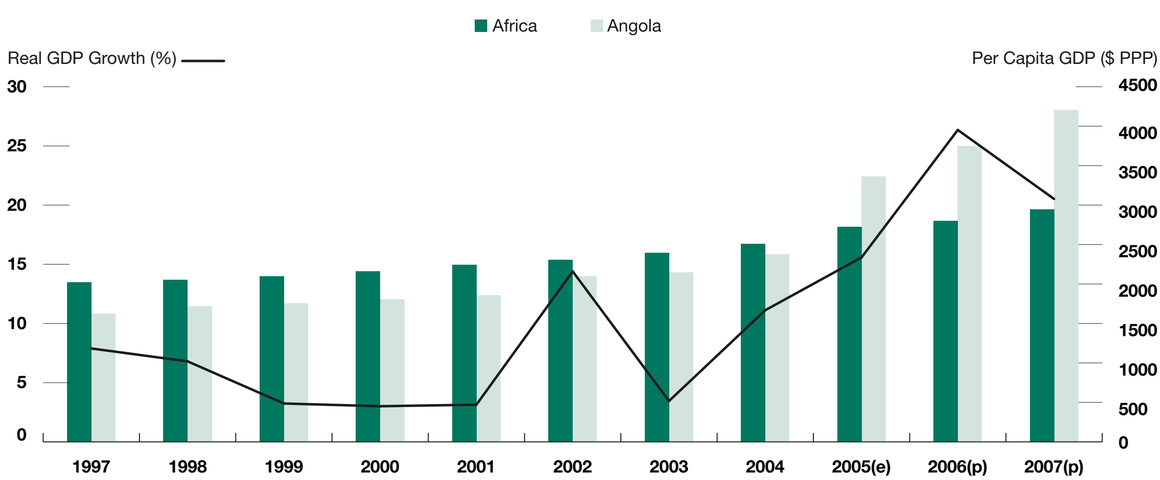
ANGOLA IS EXPERIENCING RAPID economic growth. Stimulated by high international oil prices and rapidly increasing output from new oil fields, real GDP growth exceeded 11 per cent in 2004 and, with oil production set to surge still higher, growth is expected to increase further to about 15.5 per cent in 2005, 26 per cent in 2006 and 20 per cent in 2007. While offshore oil exploration and production create very few linkages to the rest of the economy, the sheer size of this sector – accounting for 50 per cent of GDP – provides opportunities for the construction industry and the incipient services sector, as well as recycling of oil revenue through the government budget. Regional disparities remain huge, with the Cabinda enclave and Luanda benefiting much more from the boom than the rest of the country, which remains isolated due to poor infrastructure, limited progress with mine clearance and slow resettlement of displaced populations and former combatants. The consolidation of the peace process is finally making it possible for the government and its development partners to proceed with infrastructure reconstruction, agriculture recovery and social policies aimed at reducing poverty.

Oil is boosting Angolan growth but there is a need for greater transparency and better long-term development planning.

Considerable efforts have been made to improve macroeconomic management. A less expansive fiscal policy, together with currency appreciation, brought the rate of inflation down from 43 per cent in 2004 to an estimated 22 per cent in 2005. Some progress has been made in consolidating and unifying the reporting of government revenue and expenditure and in improving debt management. Although a much greater effort is required to improve fiscal transparency and balances, new sources of international finance, in particular from China, have reduced the leverage of those in the international donor community who have been pressing for more rapid reform.

The currently favourable external environment may pave the way for considerable progress towards the Millennium Development Goals (MDGs), but there is a continuing need for greater transparency and long-term development planning, as well as additional efforts to improve the investment climate. The authorities

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and National Institute of Statistics data; estimates (e) and projections (p) based on authors' calculations.

now openly acknowledge that corruption is pervasive and that better public management is key to reducing it. As the country approaches its first elections since 1992, policy choices will come under closer scrutiny although, after three decades of external intervention, Angola's government is sensitive to close monitoring by the international community and has preferred to negotiate a Policy Support Instrument (PSI)[1] with the IMF, allowing it to retain a higher degree of control over macroeconomic policies. In order to foster sustainable long-term growth, it is crucial to include structural reforms in the PSI with clear medium-term deliverables and to demonstrate strong commitment to implementation. Should this be achieved, there appears to be support within the international community for organising an investors' conference.

Recent Economic Developments

Developments in the oil sector are driving the currently high rate of GDP growth. Although this sector has little direct impact on employment, creates few direct linkages to other sectors of the economy and relies on imports of capital equipment and specialised services, the pace of oil growth is bringing about a construction boom. Moreover, new actors are challenging the traditional dominance of the western majors and modifying the bargaining power of national authorities.

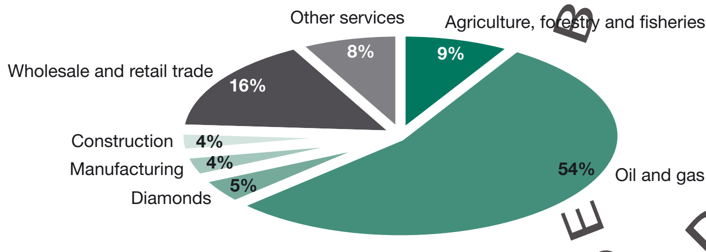
Production in offshore fields, mostly in the Congo river basin opposite the Cabinda enclave, totalled 1.2 million barrels a day in 2005 and is expected to reach 2.1 million barrels in 2008. In 2005, oil accounted for more than 52 per cent of GDP, 78 per cent of government revenues and 93 per cent of exports. In mid-2005, extraction started at the Kizomba B facility, the world's largest floating production, storage and offloading vessel. With international prices rising, exploration is moving to ultra-deep fields, where both technical difficulties and costs are much higher.

Government has traditionally intervened in the oil industry through a state-owned enterprise, Sonangol, which retains responsibility for contract negotiations, is sole owner of the fields and has entered into production-sharing agreements with major western oil companies, led by Chevron and Total. Sonangol recently created a separate joint venture with China's Sinopec to operate a deep-water field and invested in Gabon with Ireland's Tullow Oil. The decision was also made, allegedly owing to political tension with France, not to renew a concession to Total and instead to transfer the licence to a Chinese-led consortium. In an effort to increase local participation in the industry, the government is in the process of introducing new procurement and employment clauses in the production-sharing agreements, and is also considering a policy to promote local oil companies. Foreign investors, which have already resisted a previous proposal to route all industry payments through the domestic financial system, are now opposing these moves, claiming that the Angolan business community lacks the necessary skills.

Diamond mining is the second-largest source of export revenues (about 6 per cent of total exports), with 2005 output equal to $892.7 million. It is difficult to estimate the increase in real production, as a larger share of informal mining has recently been included in official statistics. There are extensive kimberlite and alluvial projects, the latter both formal and informal. In 2005, De Beers re-entered Angola through an agreement with state-owned Empresa Nacional de Diamantes de Angola (Endiama), in which it will hold a 49 per cent stake, to explore a 3 000 sq km kimberlite concession. In November 2005, the first polishing and cutting factory was opened in Luanda, capable of processing $20 million worth of diamonds per month. Diamond mining is expected to increase in the short term, as a consequence of the 296 licences granted in 2004 and 2005. Oil, diamond and other mining projects together employ an estimated 20 000 people.

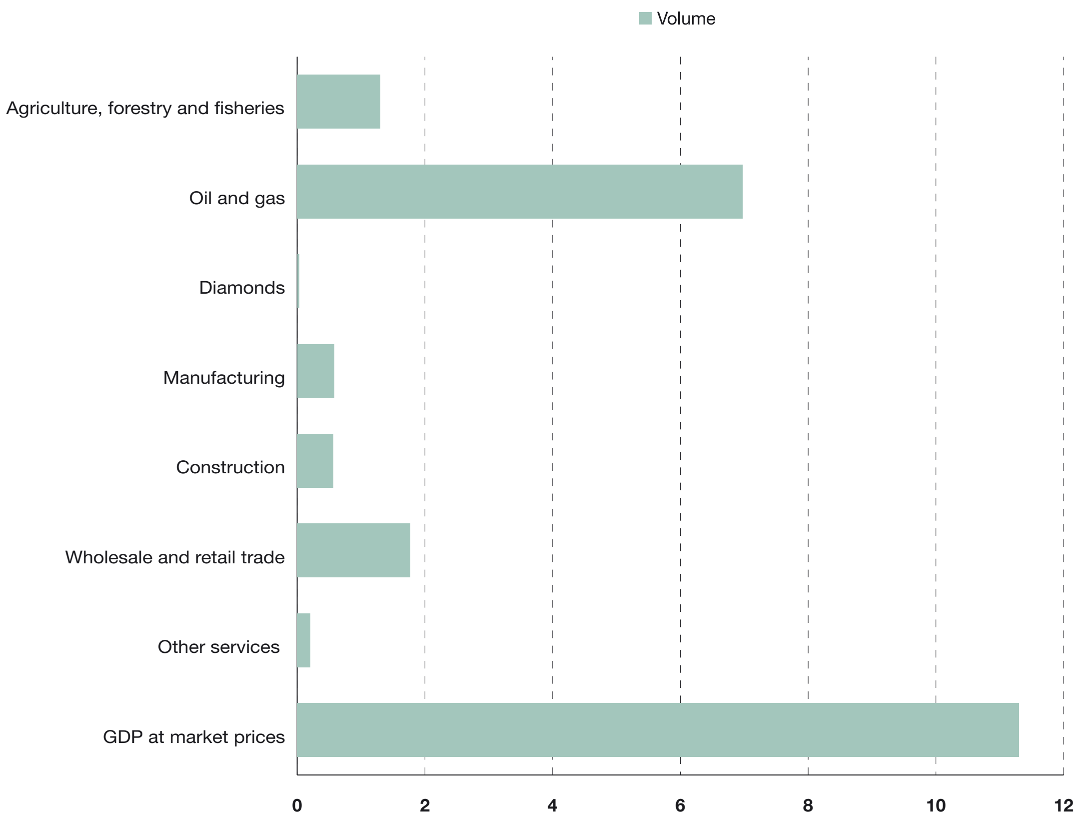
1. PSIs are designed to address the needs of low-income members that may not need IMF financial assistance, but seek Fund endorsement and assessment of their economic policies.

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

The year 2005 saw a long-delayed recovery of the domestic non-mining economy, which has finally exceeded the level prevailing in the early 1990s. Despite the presence of land mines and devastated infrastructure, which continue to restrict the availability of seeds and fertilisers and to impede marketing, agricultural production has begun to recover. Improved rainfall, the return of refugees to the Planalto rural areas and an increase of about 9.5 per cent in the area under cultivation in 2004 led to a 17 per cent increase in the 2004/05 harvest, including both staples (maize, cassava, sorghum) and export crops such as coffee (of which Angola was once the world's fourth-largest producer), sisal, tobacco, cotton, palm, sugar, citrus fruits and sesame. According to the World Food Programme, however, the rise in production is smaller than government estimates, and Angola still suffers from a huge food deficit of 625 000 tonnes per year, partly owing to the inefficiencies of the distribution system. As a result, the country has to import three-quarters of its food requirements. The livestock situation suffered less from the war, as cattle were not decimated, and investment from Israel and Russia has begun to support the development of this sector.

Manufacturing, a thriving sector before the civil war, is now reduced to light industries such as food processing, beverages and textiles. The sector recorded 9 per cent growth in 2005, compared to 13.5 per cent in 2004. Firms that are shielded from international competition by either transport costs or trade barriers are benefiting from the growth, as testified by the results of cement and beverages producers. Petroleum refining, on the other hand, is operating well under maximum capacity, due to bottlenecks in provisioning the only existing facility. The pace of infrastructure rehabilitation is accelerating, with the emphasis mostly on roads. This activity, together with a mini-boom in residential and office buildings in Luanda (including a few skyscrapers built for oil companies), has sustained the construction sector, which expanded by an estimated 10 per cent in 2005. In services, the communications sub-sector grew by 35 per cent in the first half of 2005, reflecting the launch of a second cellular phone operator and increased traffic volumes, and financial services also developed at a brisk pace, particularly in Luanda where the number of bank branches more than doubled in 2005.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**25.5**	**13.3**	**12.8**	**9.2**	**6.7**	**5.7**	**5.5**
Public	4.7	7.1	7.7	5.0	3.4	2.8	2.7
Private	20.8	6.1	5.1	4.3	3.3	2.9	2.8
Consumption	**75.2**	**74.8**	**80.6**	**75.3**	**57.5**	**51.9**	**52.5**
Public	53.8	36.9	34.0	29.4	22.5	19.9	20.2
Private	21.4	37.9	46.7	45.9	35.0	32.0	32.2
External sector	**-0.7**	**12.0**	**6.6**	**15.5**	**35.8**	**42.4**	**42.0**
Exports	68.5	77.6	70.2	70.5	74.8	72.5	69.3
Imports	-69.2	-65.6	-63.7	-55.0	-38.9	-30.1	-27.3

Source: : IMF and National Institute of Statistics data; estimates (e) and projections (p) based on authors' calculations.

Table 1 provides some detail on the historical structure of final demand, clearly revealing the economy's dependence on exports and its reliance on imports for most consumer goods. Oil and mineral development continue to dominate Angola's economic growth prospects. In 2006 and 2007, mineral exports will improve the external sector balance, adding further stimulus to growth. Import volumes are expected to grow by 12 per cent, in tandem with an increase in private investment of 17 per cent in real terms; this new investment, almost entirely foreign, is concentrated in minerals. Public investment will also rise by 10 per cent in real terms in 2006 and 2007, reflecting poverty alleviation programmes and infrastructure reconstruction. The positive sectoral developments mentioned above are also expected to increase household incomes, raising the rate of growth in private consumption to 9 per cent in real terms in both 2006 and 2007.

Macroeconomic Policies

Fiscal Policy

Success in the fight against inflation, which consistently exceeded 100 per cent a year throughout the civil war, is one of the Angolan authorities' major achievements. As illustrated below, inflation fell to 18.5 per cent at end 2005. Previous price stabilisation efforts were undermined by large fiscal imbalances and sizeable central bank operating deficits caused by the use of oil revenues and expensive oil-backed loans from international commercial banks to finance sustained expenditure increases (such as a large army and civil service payroll, arms purchases and consumer subsidies). Progress in tackling these issues has been slow, although the government has reformed the fiscal accounts to reflect reality more accurately than in the past. These accounts now include most off-budget expenditures, including transfers to the military, the quasi-fiscal operations carried out by Sonangol on behalf of the government and the central bank's operating deficit. Moreover, the government has made considerable progress in consolidating and unifying the reporting of government revenue and expenditure.

In 2004, the fiscal deficit fell to 1.5 per cent of GDP as a result of tighter control of current expenditure, higher oil revenues and measures to improve budget execution procedures. Efforts to contain and monitor expenditure continued in 2005, notably through the phasing out of price subsidies on petrol (from 3.8 per cent of GDP in 2004 to 0.8 per cent in 2005) and public utilities. Increased oil production combined with high world oil prices resulted in a 7.9 per cent surplus in 2005. Substantial surpluses are expected in 2006 and 2007 as well.

The 2006 draft budget gave higher priority to transport infrastructure, with allocations increasing by 10 per cent in real terms to reach 10 per cent of total outlays. Infrastructure rehabilitation will be financed with oil-backed credit lines provided by foreign partners such as China, Brazil, Portugal and Spain. Defence and security spending is expected to consume 12 per cent of total receipts in 2006, down from 17.9 per cent in 2005. The shares of the 2006 budget allocated to health and education, however, have been reduced to 4.4 and 3.8 per cent respectively, from 4.9 and 7.1 per cent in 2005. In response to donors' concerns regarding these low allocations to the social sectors, the authorities argue that the limited absorption capacity of these sectors, and in particular their shortage of human resources, militate against increasing resources.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**39.6**	**40.5**	**38.3**	**37.4**	**38.5**	**37.3**	**35.8**
Tax revenue	4.9	8.0	7.8	6.9	5.6	5.0	4.9
Oil revenue	33.9	32.5	29.7	30.1	32.6	32.0	30.7
Total expenditure and net lending[a]	**55.0**	**49.7**	**45.7**	**38.9**	**31.0**	**26.7**	**26.9**
Current expenditure	51.1	36.9	37.3	31.8	25.1	22.7	23.5
Excluding interest	*45.4*	*33.6*	*34.8*	*29.5*	*23.0*	*20.9*	*21.8*
Wages and salaries	9.6	11.3	12.5	10.5	7.8	6.7	6.6
Interest	5.7	3.3	2.4	2.4	2.1	1.8	1.7
Capital expenditure	4.6	7.1	7.4	4.5	3.1	2.6	2.5
Primary balance	**-9.6**	**-6.0**	**-4.9**	**0.9**	**9.5**	**12.4**	**10.6**
Overall balance	**-15.4**	**-9.3**	**-7.4**	**-1.5**	**7.5**	**10.6**	**8.9**

a. Only major items are reported.
Source: IMF and Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

Monetary Policy

Since September 2003, the rapid accumulation of foreign exchange earnings has allowed the government to intervene through open-market operations, stabilise the kwanza's nominal exchange rate against the dollar and dampen inflationary pressures. Year-on-year consumer price index inflation fell to 18.5 per cent in December 2005, from 31 per cent one year earlier, despite a 40 per cent increase in the retail price of petroleum products. Inflation averaged 22 per cent in 2005 and is expected to average 20 per cent and 16 per cent in 2006 and 2007 respectively.

The improvement in fiscal outcomes thus far has been due to increases in oil revenue. The government continues to undertake substantial expenditure that injects large amounts of kwanzas into the economy and threatens to spark inflation, although spending on domestically produced goods and services has fallen in real terms, obliging the Banco Nacional de Angola to slow money creation by purchasing kwanzas with dollars derived either from oil receipts or from loans backed by promises of future oil receipts. The gross cost of such measures (that is, excluding the gains obtained by maintaining low inflation) is estimated to amount to more than $2 billion a year. Moreover, exchange rate-based stabilisation policies entail additional costs such as currency appreciation, which detracts from the competitiveness of domestically produced tradeable goods. It should be noted, however, that the domestic economy consists mostly of non-tradeable services. Furthermore, all these costs must be weighed against the fiscal benefits, in terms of improved tax collection, brought about by the decline in inflation. Finally, despite some improvements, a great deal more progress is needed to achieve transparency concerning oil revenues. Angola has subscribed to the Extractive Industry Transparency Initiative, but *de facto* implementation has been limited.

External Position

Angola eliminated export tariffs in 1999, and average import duties declined from 17 to 14 per cent between 2002 and 2004. A new customs law is being drafted, but no date has been scheduled for its implementation. Angola formally acceded to the Southern African Development Community (SADC) Trade Protocol in March 2003 and is currently preparing a schedule for its implementation. The bulk of SADC trade liberalisation measures are scheduled to be introduced by 2008, and member states are carrying out a mid-term review of the Trade Protocol to that effect – a process in which Angola is expected to play an important role as a member of the steering committee.

Angola has been the leading beneficiary of the Generalised System of Preferences (GSP) with the United States since 1999 and became eligible to benefit from the African Growth and Opportunity Act (AGOA) in December 2003. Angola's exports under AGOA and its GSP provisions in 2004 – almost entirely oil and energy products – were valued at $4.3 billion, representing 96 per cent of the country's total exports to the United States.

High oil prices coupled with increased production boosted exports in 2004, resulting in a $7.6 billion trade surplus. Oil and diamond exports are estimated to have risen by 65 and 24 per cent respectively over the 2002-04 period. In 2004, the United States was the largest export destination (31 per cent), followed by China at 30 per cent. During the 2000-03 period, these two countries accounted respectively for 41 and 17 per cent of total exports. European Union countries are the single largest source of imports, accounting for roughly half of Angola's external purchases. Processed and fresh food products are mostly imported from Portugal and South Africa respectively, while the main import item from the United States is equipment and machinery.

Angola recorded its first-ever current account surplus in 2004 (3.5 per cent of GDP), as the trade surplus more than offset the traditional services account deficit. The latter reflects the high levels of services imports required by the oil industry. The large deficit in the factor income account corresponds mainly to remittances of profits.

Exports rose sharply in 2005 to $17.3 million, from $13.4 million in 2004, as a result of rising oil production and prices and of increased diamond production. Continuing growth in crude oil production is expected to enhance export volumes further over the projection period, by an estimated 30 per cent in real terms in 2006 and 2007. This growth should lead in turn to an increase in imports of capital goods, which are projected to grow by 13 per cent per year in real terms in 2006 and 2007.

The further increase in international oil prices is making deep-water exploration in the South Atlantic financially viable, to the point where the world's most advanced technologies are being used in Angola first. The country was Africa's largest recipient of foreign direct investment (FDI) flows in 2003 and the second-largest after Nigeria in 2004. New licences for 23 blocks were advertised in the international financial press in November 2005.

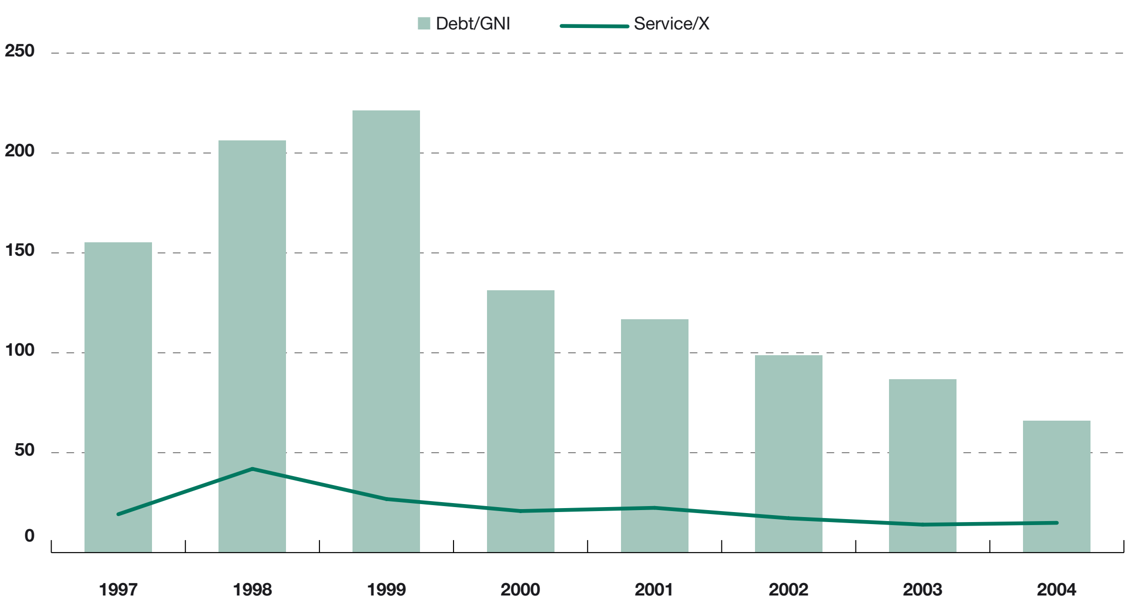
Table 3 - **Current Account** (percentage of GDP)	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	31.4	40.8	29.1	39.1	52.4	55.4	54.0
Exports of goods (f.o.b.)	65.2	75.7	68.8	69.0	73.8	71.9	68.9
Imports of goods (f.o.b.)	-33.8	-34.8	-39.6	-29.9	-21.4	-16.5	-14.9
Services	-32.1	-28.9	-22.6	-22.9			
Factor income	-12.0	-15.1	-12.5	-12.7			
Current transfers	1.2	0.3	0.7	0.0			
Current account balance	**-11.5**	**-2.9**	**-5.2**	**3.5**			

Source: IMF and National Bank of Angola data; estimates (e) and projections (p) based on authors' calculations.

The rest of the economy attracts little FDI, but the amount is growing. Services, in particular, are viewed as having strong growth potential, as shown by new projects financed by the Portuguese banks Banco Internacional de Crédito (BIC) and Banco Comercial Portugues (BCP Millennium) and by other investors in retail trade, telecommunications (Telecom Namibia is to launch the first private fixed-line telephone network), electricity and construction. Belgian and Swiss food companies have invested to expand their operations. Investors from Brazil, South Africa and other countries are also thought to be exploring business opportunities in fertilisers and breweries.

The burden of external debt has eased in recent years. At end-2004, according to IMF and World Bank estimates, Angola's debt amounted to $8.9 billion including arrears and overdue interest, the equivalent of 65.9 per cent of GNI, down from 86.8 per cent in 2003. Reliance on costly short-term oil-backed loans is also declining thanks to $2 billion worth of official credit lines from China and others. As new financial sources emerge, Angola is now less dependent on traditional ones such as the OECD countries and the IMF. Moreover, it has restructured its official bilateral debt obligations with several of its major creditors in a series of bilateral negotiations. Although these trade

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

credit lines carry a higher cost than official multilateral finance, the authorities are unwilling to weaken their operational autonomy, commit firmly to a range of structural reforms and reduce their current reliance on selling foreign exchange to contain inflation. At this stage, a likely compromise is the signing of a home-grown PSI programme that takes into account some of the IMF recommendations.

Structural Issues

Recent Developments

Angola has significantly improved its macroeconomic management since the end of the civil war in 2002. Structural reform should build on this momentum: in the event that efforts to diminish the country's reliance on oil and diamonds fail, Angola will soon face an abrupt deceleration of growth, since oil production is expected to reach a ceiling in 2008.

Unfortunately, new measures[2] to deregulate economic activity, sustain the privatisation process and attract foreign investment in the non-oil sectors have been slow to produce results. Private investors complain that risk-taking and job-creating activities are jeopardised by widespread corruption, outdated regulations and rent-seeking behaviour – an assessment that is confirmed by international rankings such as *Doing Business* and the Transparency International index. The domestic business sector includes a small number of businesses thought to have strong political influence (the so-called *empresarios de confiança*), and barriers to entry are high. The authorities have begun to address this issue through efforts to improve the tendering and auditing of public sector procurement contracts, among other things by employing new staff at the Accounts Tribunal. In the case of land reform, major problems remain: most colonial registries have been destroyed, and registration of transfers of ownership, occupation and concessions is in disarray as ministerial jurisdictions are badly defined and often overlapping. Decentralisation, which was supposed to accelerate the implementation of such reforms, is incomplete: in practice, it has meant decentralisation of administrative tasks but not delegation of spending or taxation authority.

In 2005, structural reforms largely stalled. In the case of the oil sector, a new bill was presented to the National Assembly in mid-2005, dealing *inter alia* with the handling of foreign currency proceeds from exports. Foreign investors had claimed that national banks were not prepared to accommodate massive foreign currency flows efficiently and managed to remove from the law a controversial provision that required oil companies to route their export revenues through domestic rather than international banks.

A competition bill has been drafted, but has not yet been transmitted to parliament. Concerns regarding the status and success of the privatisation process led the authorities to suspend it in 2001. To reactivate this process, the authorities intend to create an independent agency and to establish a legal framework for setting up a stock exchange.

Some state-owned enterprises, such as Angola Telecom, the railways and the national airline TAAG, have engaged in corporate restructuring with a view to attracting FDI, but improvements in service delivery and financial viability have yet to materialise. TAAG, in particular, has been in debt for years and has periodically been suspended from the International Air Transport Association (IATA), although in 2004 it presented certified accounts for the first time. The state-owned diamond company, Endiama, currently combines regulatory responsibilities with commercial operations, and these two functions should be separated. This is a necessary condition for opening up the diamond sector to small and medium-scale private operators.

Two of the longest-lasting legacies of the civil war and successive bouts of high inflation have been the

2. These include a new investment law that provides for equal treatment of foreign and Angolan firms (with few exceptions); the new commercial code enacted in early 2004; the establishment of a national private investment agency (ANIP), a one-stop registration office for companies; and a land tenure law passed in 2004 with the aim of clarifying property rights and customary tenure.

dollarisation of the economy and the reluctance of households to place their savings in formal financial institutions. With the return of price stability, the entry of new banks, the opening of a substantial number of new branches including in the provinces, and the availability of withdrawal facilities, total banking deposits increased by 13.5 per cent in real terms in the first half of 2005. Access to credit remains severely restricted, however, especially for smaller firms, as banks invest in treasury and central bank instruments and have to date shown little inclination to compete for private sector borrowing. A major achievement was a $200 million syndicated loan negotiated by TAAG in July 2005 with three local banks, led by the Banco Africano de Investimentos and including the Banco Espírito Santo Angola and Banco Comercial Angolano, to finance the purchase of new aircraft. The government will repay the banks with special Treasury notes.

In 2000, the authorities set up a credit institution (Fundo de Desenvolvimento Economico e Social – FDES) to channel part of the country's large oil revenues to support investment in the private sector. According to the original plan, FDES was supposed to receive $150 million from oil "bonuses" in 2000, but as of mid-2004, only $30 million had been disbursed. A new development bank, partly modelled on Latin American experiences, will be created in 2006.

Energy infrastructure has not kept pace with the dynamism of the economy, especially in Luanda. The frequency of brownouts and power cuts has increased, owing to inefficiencies in thermal generation facilities and delays in completing the Capanda dam and hydroelectric plant. This four-turbine plant has been operating on an experimental basis since January 2004, when the first 130 MW turbine came on line; this was followed by a second one later the same year. Currently, the power transmission lines are connected to Cambambe dam, located in northern Kwanza-Norte Province. The government approved a $113 million loan secured by Russia Unified Bank that, along with another $130 million from Brazil, will be used for the second stage of the project, which is scheduled to be completed in 2007.

Transport Infrastructure

The war left a legacy of destruction, mainly in rural areas, as well as years of neglect and lack of maintenance in Luanda. According to a recent survey on transport conditions in the central highlands, 82 per cent of communities are connected to the road network, but each year 31 per cent of them remain isolated for at least five months. The road network is the least dense in the northern part of the highlands. In villages where there are no roads, the average distance to the nearest road is five km. The still extensive presence of mines is also a major constraint on mobility, as public transportation is available to only half of communities (59 per cent of communities during the dry season, 47 per cent during the rains).

The task of rehabilitating and expanding transport infrastructure is enormous. The government initially focused on emergency measures and is now gradually shifting towards a medium-term multi-modal strategy comprising three interrelated strands:

- the rehabilitation of 457 km of national primary and secondary roads and the construction of five metal bridges;
- rehabilitation of the three main rail corridors dating from the colonial era, mostly financed by a loan from China (see box). At a later stage, new railway lines may be constructed linking Angola to the Namibian and Zambian networks. By supporting trade relations with South Africa and offering easier Atlantic access to the Zambian Copperbelt, these rail links could have significant effects on regional trade, facilitate the resettlement of internally displaced persons and consolidate the recovery of the agricultural sector;
- continued efforts to expand capacity at the port of Luanda[3]. In August 2005, state-owned Unicargas began operating a new general-purpose port terminal with capacity to handle

3. The port reportedly received 2 645 commercial ships in 2004, of which 1 925 were on cabotage (local) missions and 739 on long-haul missions. The port handled 3.19 million tonnes of cargo during the year, 122 000 tonnes more than in 2003.

244 000 tonnes of general cargo a year, under a 20-year concession agreement.

Lastly, air travel played a predominant role during the war because of military insecurity in the countryside. The country has 13 airports, all of which are in need of rehabilitation. The national privatisation agency ANIP set a target of $250 million in funding for this purpose in 2002. Projects at Luanda International Airport, which are being undertaken by G.M. International in a joint venture with Sarroch Granulati Srl, are focused mainly on rehabilitating the runway. An amount of 2.7 million has been allocated for this project. There are also plans to develop a new airport 30 km north of Luanda, to be built by Chinese contractors. Other major airports, at Cabinda, Huambo and Bie, are also being rehabilitated.

With the exception of a toll bridge over the Kwanza river, authorities have been reluctant to introduce cost-recovery mechanisms for two main reasons. First, transport infrastructure is seen as a crucial instrument for post-war nation building, with large and positive net economic and social externalities that the government is willing to subsidise. Second, in order for providers to charge for improved roads, users must be provided with free-of-charge alternatives, the cost of which would far exceed current budget allocations.

China's Loan to Rehabilitate Transport Infrastructure

Angola has seen a dramatic expansion of its relations with China since early 2005, when China Eximbank extended Angola $2 billion worth of loans to rehabilitate roads and railways, especially in Benguela, which is critical to mineral exports. China also accounts for a rapidly growing share of oil exports, and Chinese companies are taking up old oil licences vacated by a French oil company, Total, whose reputation has been damaged by the ongoing judicial inquiry in France. Chinese companies are rapidly establishing themselves in the Angolan construction, telecommunications, power and mining sectors.

The conditions include repayment over 17 years, a period of grace of up to five years, and a 1.5 per cent interest rate per annum. This credit has some advantages and disadvantages for Angola. First, the real cost of this loan is higher than that implied by the published rates, because non-Chinese suppliers are excluded, negatively affecting the prices of imports of goods and services. However, this real cost should still be clearly under the rates at which Angola was already borrowing elsewhere. Second, Angola has urgent and large needs of financing to support a rapid programme of investments for the recovery of the infrastructure, which would allow the reintegration of the country, a basic condition for the reactivation of the economy and, especially of the agriculture. This was seen as basic condition for the consolidation of peace and the alleviation of the catastrophic social problems left by many years of war and economic mismanagement. Other sources of financing were blocked by Paris Club rules, by the inability to reach an agreement with the IMF.

The project, funded by Chinese loans, involves not only the rehabilitation of the three main lines – the 1 336-km Benguela railway from Lobito to the eastern border with Zambia and the Democratic Republic of Congo, the 479-km Caminho de Ferro de Luanda from Luanda to Malanje and the 907-km Moçamedes railway inland from the coastal town of Namibe – but also construction of several transversal sections linking the three existing east-west lines. According to the transport minister, André Luís Brandão, the Namibe and Benguela lines should be operational within three years. Having already rehabilitated 17 de Setiembro Airport, the Chinese government will also finance the construction of a new airport in the central Benguela province.

Political and Social Context

Thirty years after Angola won independence and four years after a cease-fire was signed between the armed forces and the rebels on 4 April 2002, the presidential elections – initially scheduled for September 2006 and eventually set for the first quarter of 2007 – will constitute a milestone in national reconciliation and the consolidation of democratic institutions. Parliament has passed the legislation necessary for carrying out the elections, which includes establishing a national electoral commission (CNE), preparing the voter registry and allowing the President to serve three consecutive terms of office. Opinions differ as to the importance of delaying the process. While this may be seen as a dilatory tactic on the part of the Movimento Popular de Libertação de Angola (MPLA), holding the vote in a context of distrust among political parties could be detrimental to the consolidation of peace. No opinion polls exist in Angola, but the MPLA seems guaranteed to remain in power owing to the weakness of, and divisions in, the opposition parties, the dominance that the ruling party exercises over state resources and the CNE, and the feebleness of civil society, including the press. Although peace seems to be firmly established, the continuing armed conflict in Cabinda, albeit of low intensity, remains a cause of concern in view of the strategic importance of the enclave for oil exploration.

According to a World Food Programme survey, the majority of household members (67 per cent) have been displaced at least once during their lifetimes, and the average period of displacement is 5.4 years. In 2005, the government reported that 2.34 million internally displaced people, out of the 4.1 million estimated at the end of the hostilities, had returned to their areas of origin, primarily in the provinces of Huambo, Benguela, Kwanza Sul and Bié. In addition, approximately half of the estimated 450 000 refugees to neighbouring countries had returned home since 2002. The average period since their return (as of December 2004) is just over three years, allowing households two or three harvests. The last important wave of resettlement in the Planalto took place in 2002/03, when 47 per cent of the total displaced population returned home.

Major social indicators such as life expectancy, malnutrition and access to water and sanitation deteriorated sharply during the war and are still at alarming levels. The rate of maternal mortality is one of the highest in the world: 1 800 per 100 000 births, compared to a Southern African Development Community (SADC) average of 560. Angola has the world's third-highest under-five child mortality rate, with 250 deaths per 1 000 children, owing to malaria, respiratory infections, diarrhoea, measles and neo-natal tetanus; the SADC average is 137. Malnutrition is an important underlying condition, estimated to affect almost half of Angola's 7.4 million children.

The majority of the population does not have access to health care. Despite recent efforts to increase the availability of health facilities, expenditure is still very low. Owing to the effects of the civil war and the insignificant resources allocated to the health sector over more than two decades, indicators of health outcomes will take considerable time to show improvement. In the central highlands only 13 per cent of the communities have a hospital or health post; the average distance to the nearest health facility is more than 20 km; and 60 per cent of communities rely on unqualified health providers, such as traditional midwives, while only one-third of the health facilities in the area are staffed with qualified health professionals.

The underlying causes of the low rate of access to health services and the poor quality of those services are the huge human capital deficit – there is only one physician for every 13 000 people – and the very low quality of social spending. The funds allocated to the health sector are fragmented into distinct budgetary units at provincial level and dispersed in a large number of sub-sectoral policies, programmes and plans without a sector-wide plan of action.

Faced with these enormous social challenges, the government expressed its resolve to launch a series of action plans. Although the finalisation of Angola's first Poverty Reduction Strategy Paper, released in draft form in early 2004, has been delayed, the government has launched a general programme for 2005/06 to mobilise action in priority areas, including food security and rural development, mine clearance and infrastructure rehabilitation. At the same time, donors are currently shifting from emergency intervention to a developmental approach, focusing their initiatives on achieving the MDGs and fostering democratic governance. In this context, donors are pressing the authorities to step up the fight against corruption and improve transparency in the use of oil revenues.

Largely owing to the population's lack of mobility during the war, HIV prevalence in Angola is considerably lower than in neighbouring countries. A UNICEF survey, which covered some 12 000 women tested at pre-natal clinics in all 18 provinces, found that only 2.8 per cent of them were infected, which would imply an overall adult HIV infection rate of about 5 per cent. However, the results of a more recent national survey have raised doubts regarding the reliability of the earlier data, which may seriously have underestimated the magnitude of the problem. The recent study shows that HIV prevalence is significantly higher in border provinces, suggesting that population movements have been accelerating the rate at which the infection is spreading across borders and along major corridors. In Cunene province, at the border with Namibia, the prevalence rate is as high as 9.1 per cent.

The perception of a relatively low prevalence of HIV led to a lag in medical response and extremely low budgetary allocations over the past three years. Although the government has established a National AIDS Commission and approved a National Strategic Plan (estimated at $92 million for five years and financed by the United Nations), progress in establishing prevention and treatment measures has been slow. Most activities related to preventive education and the mitigation of discriminatory practices are still in the early stages and depend mainly on the efforts of non-governmental organisations and the international donor community. Currently, awareness of preventive measures is very low. For instance, only 17 per cent of the population could correctly identify three ways of avoiding HIV infection. In addition, there are few testing and treatment facilities, especially in the provinces, reflecting a low level of commitment by many local authorities. In 2004, the government opened the first day hospital in Luanda to provide specialised care and has subsidised antiretroviral (ARV) therapy for 2 000 patients, out of an estimated 40 000 people in need of ARV treatment. Clearly, Angola still faces a number of major challenges: expanding treatment facilities in Luanda and priority provinces, providing training for personnel, supplying tests and other materials, and improving monitoring, with particular emphasis on the most affected areas, border regions and potential transmission corridors.

According to a rural household survey carried out in 2005, the illiteracy rate among heads of household is 60 per cent, and of those who are literate, 73 per cent never completed primary education. The war has compounded the lack of school infrastructure and personnel, which is exacerbated in rural areas. Currently, according to national sources the primary school enrolment rate is 115 per cent, indicating that many children above 10 years of age attend primary school. The combined primary and secondary school enrolment rate of children aged 5 to 18 years is 63 per cent, but only 5 per cent of the 10-18 age group is enrolled in secondary school. The performance of the educational system is weakened by children's late age at the time of enrolment, high repetition and dropout rates, the very poor quality of facilities and the irregularity with which classes are held.

To address these challenges, the Ministry of Education has reformulated the *Plano-Quadro de Reconstrução do Sistema Educativo*, setting new targets to be achieved by 2015. The challenges remain enormous. In order to achieve universal primary enrolment and completion rates while keeping pace with the rapid growth of the school-age population, the number of pupils enrolled in primary school needs to grow from an estimated 1.2 million in 2002 to 5 million by 2015. In addition, in order to improve the availability and quality of primary education, large numbers of additional well-trained teachers are needed. To that end, the Ministry of Education with the assistance of UNICEF has recently drawn up a national capacity-building plan that aims to improve the teaching skills of some of the 29 000 teachers recruited in 2003.

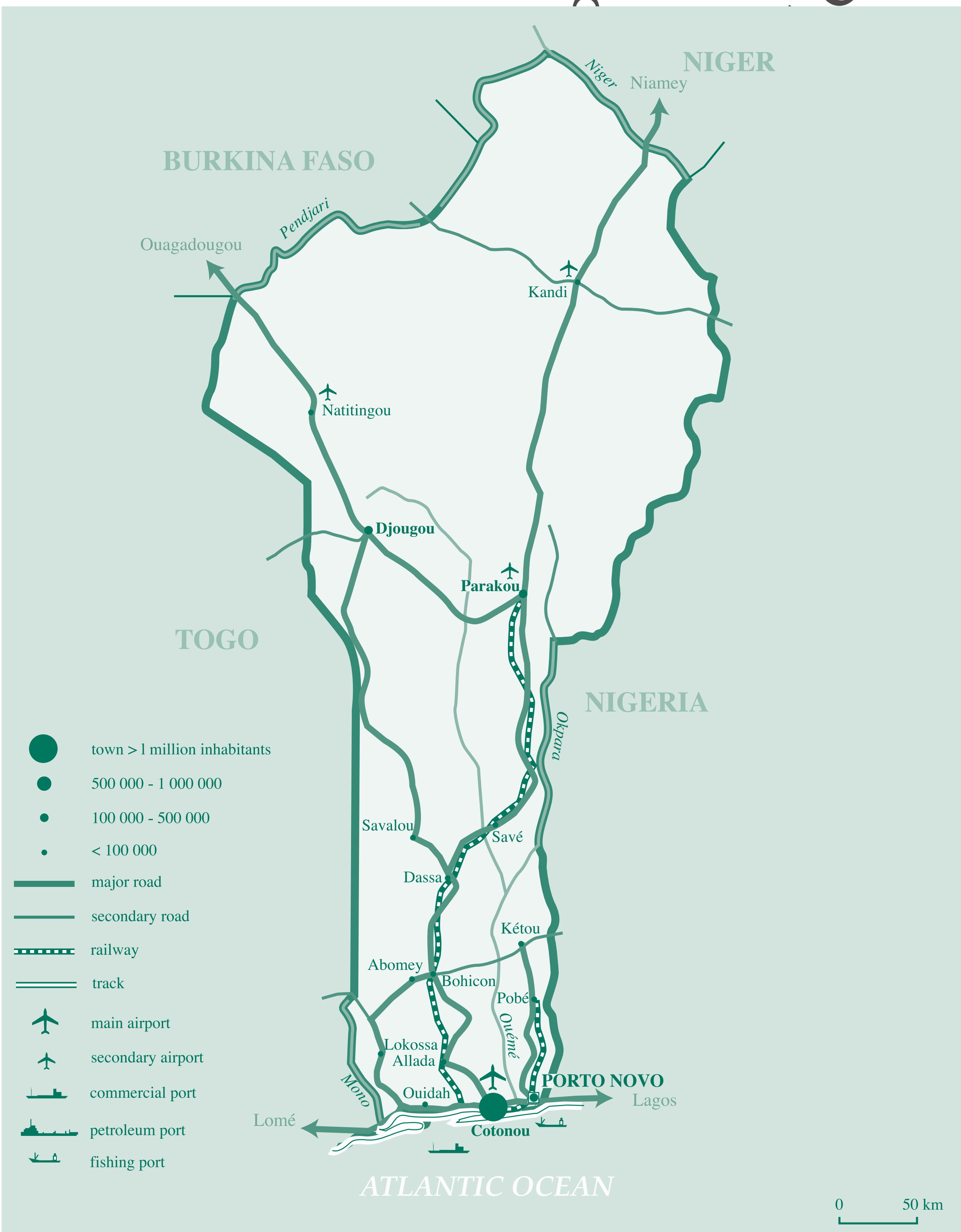
Benin

key figures

• Land area, thousands of km²	113
• Population, thousands (2005)	8 439
• GDP per capita, $ PPP valuation (2005)	1 103
• Life expectancy (2000-2005)	53.8
• Illiteracy rate (2005)	56.8

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/385413155143

Benin

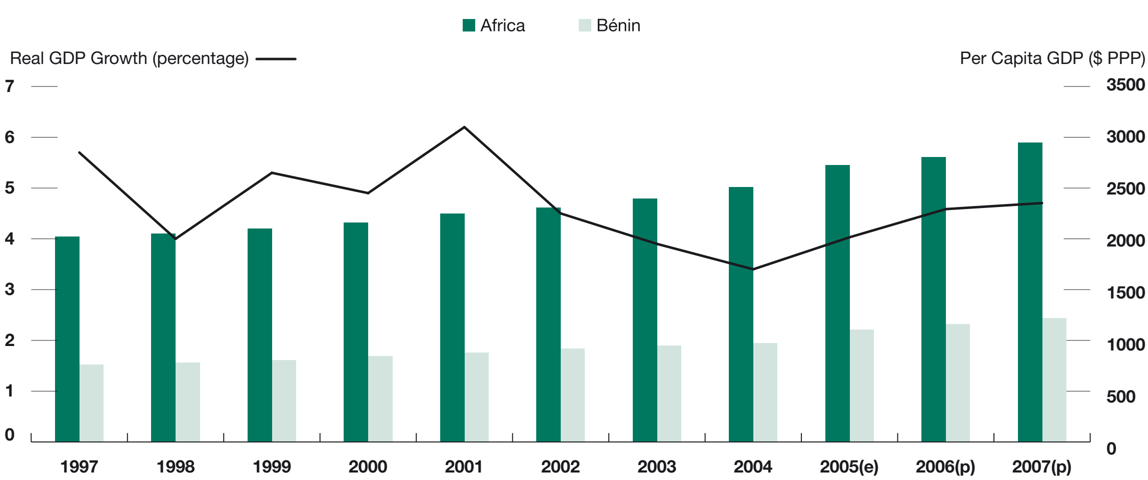


FOLLOWING SATISFACTORY MACROECONOMIC results during the 1990s, Benin now faces a significant slowdown of growth; the real growth rate was only 3.4 per cent in 2004, while it averaged 5 per cent during the 1990s. With a population growth rate of 3.1 per cent, poverty reduction is inevitably very slow. This slowdown is due to both temporary and structural factors. The year 2004 was characterised by a difficult regional and international environment for Benin's economy, particularly the maintenance of trade restrictions imposed by Nigeria on exports from Benin and unsatisfactory oil and cotton prices. However, this vulnerability to external shocks is a result of delays in implementing the structural reforms started during the 1990s. The programme signed with the International Monetary Fund (IMF) in August 2005 in the framework of a Poverty Reduction and Growth Facility (PRGF) should allow Benin to re-launch structural reforms while continuing to lay emphasis on priority social sectors. It is nevertheless unlikely that the Millennium Development Goals (MDG) will be attained by 2015, even if significant progress has been made in some social sectors.

The development of the cotton sector is indicative of the difficulties facing Benin in taking up the challenge of medium- and long-term development. The malfunctioning of the new, completely private, regulation system obliged the State to intervene at the end of 2004 in order to organise the harvest and put some order into the way in which the sector worked. Public interventions of this kind and good payment conditions for the previous harvest led to a record harvest of 427 700 tonnes for 2004/05. In 2005/06, payments in arrears to the cotton ginners and the problems encountered by the State in paying out purchase price subsidies to producers discouraged cotton producers, who therefore turned to food crop production, where prices had greatly increased because of the food crisis in the Sahel region. While the cotton sector was one of the spurs to growth in 2004 and 2005, it is likely to act as a brake on growth in 2006, due to a marked decrease in production.

Growth has slowed due to a weakening economy buffeted by external shocks.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and INSAE data; estimates (e) and projections (p) based on authors' calculations.

The problems encountered by the port of Cotonou in 2003 continued throughout 2004. Goods traffic was hit by the trade restrictions imposed by Nigeria and by the low competitiveness of the port at regional level. Some improvement should nevertheless be noted in 2005 due to an agreement signed with Nigeria in April 2005 authorising the export of products from Benin, and also due to Togo's political and economic difficulties, which have resulted in a reduction of activity in the port of Lomé to the benefit of the port of Cotonou. The setting-up of a new system of flow management at the end of 2005 is expected to improve the regional competitiveness of the port and significantly reduce the delays in goods transit.

The presidential election of April 2006 marks a turning point in politics in Benin. Two former presidents, traditionally opponents, are now too old to be candidates, and several candidates have declared their intention to run for election. The challenge of this election is therefore to transform the political stability achieved thanks to the charisma of these former presidents into genuine democratic stability. This is an essential condition if Benin is to achieve more sustained growth.

In this climate of economic instability and political uncertainty, growth is expected to be moderate in 2005, slightly above 4 per cent. It should then gather momentum in 2006 and 2007 and reach 4.7 per cent thanks to the normalisation of trade relations with Nigeria, the resumption of structural reforms, and increased economic activity after the election in April 2006.

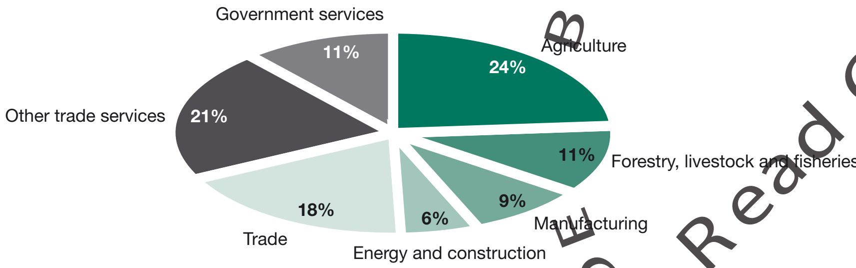
Recent Economic Developments

Although Benin's macroeconomic climate showed clear improvement up to the beginning of this decade, Benin's economy remains fragile and vulnerable to external shocks. This vulnerability is due to the economy's strong dependence on the cotton sector and trade with Nigeria. The real economic growth rate has continued to decline since 2001, reaching 3.4 per cent in 2004 compared with 3.9 per cent in 2003. It will probably be a little over 4 per cent in 2005, which is slightly higher than the rate of population growth.

While the cotton harvest of 2004/05 broke all records, with cottonseed production reaching 427 700 tonnes, results for the year 2005/06 promise to be much poorer (between 250 000 and 320 000 tonnes). The privatisation of this integrated sector has not yet yielded positive results (cf. structural issues). In November 2004 the government had to intervene in order to organise production and to attempt to put some order into the way in which the sector functions. Furthermore, in order to protect producers from the adverse effects of the fall in international cotton prices, in January 2005, the State decided to subsidise the purchase price to producers at 43 CFA francs/kg in order to maintain prices at the same level as the previous year, i.e. 200 CFA francs/kg for the best quality. These State interventions and the satisfactory payments situation of the previous year led to an increase in production of 25 per cent for the year 2004/05. On the other hand, the year 2005/06 suffered from certain problems: the record production for 2004/05 led to tension between the State and producers, as the State had promised to subsidise producers' purchase prices on a basis of a production of 350 000 tonnes.

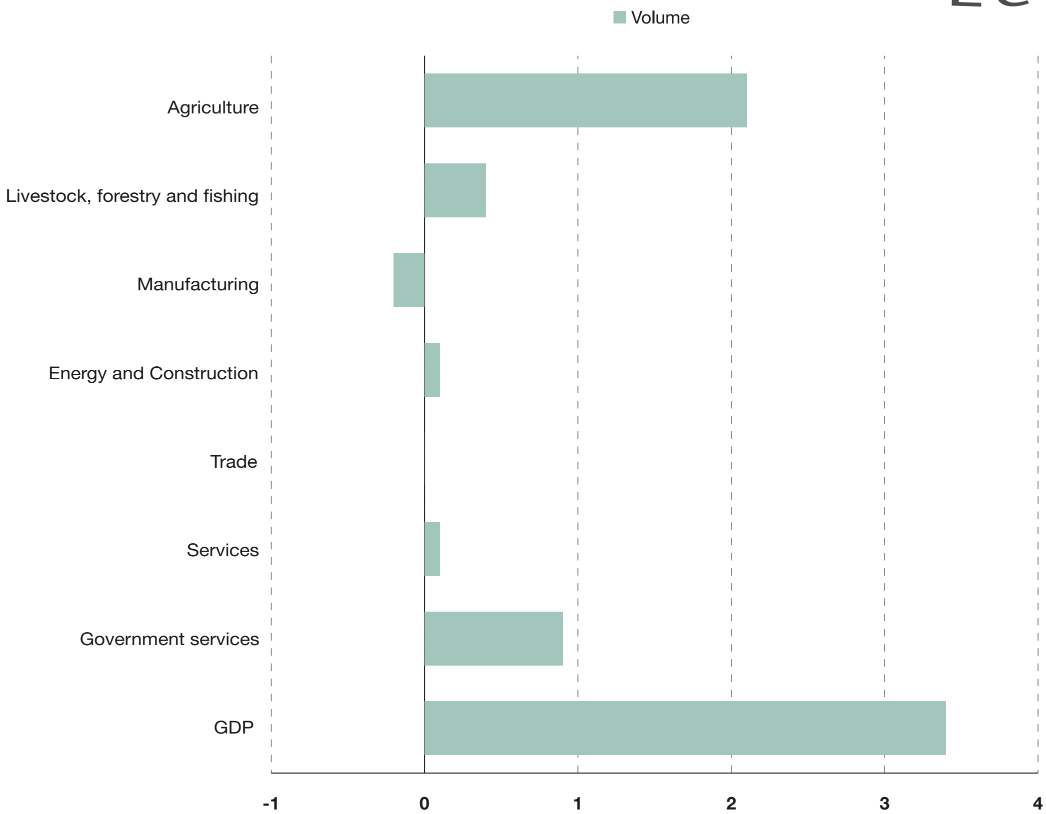
The problems encountered in the cotton sector in spite of the excellent harvest of 2004/05 and the food crisis in the Sahel countries benefited food-crop farming, particularly maize: production rose by 25 per cent during the year 2004/05 and reached over 925 000 tonnes. Although Benin is self-sufficient and exports food surpluses each year to the sub-region, a few pockets of food insecurity still exist, especially in the north, as well as in some parts of the south. Moreover, massive sales of tubers and cereals at the beginning of the production year undermined the food-provision situation in the rural population, which encountered supply problems during the bridging period because of the continuous sharp rise in food prices. International food aid was therefore sent to the north of the country during the last quarter of 2005 in order to prevent famine among the 20 000 people there.

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on INSAE data.

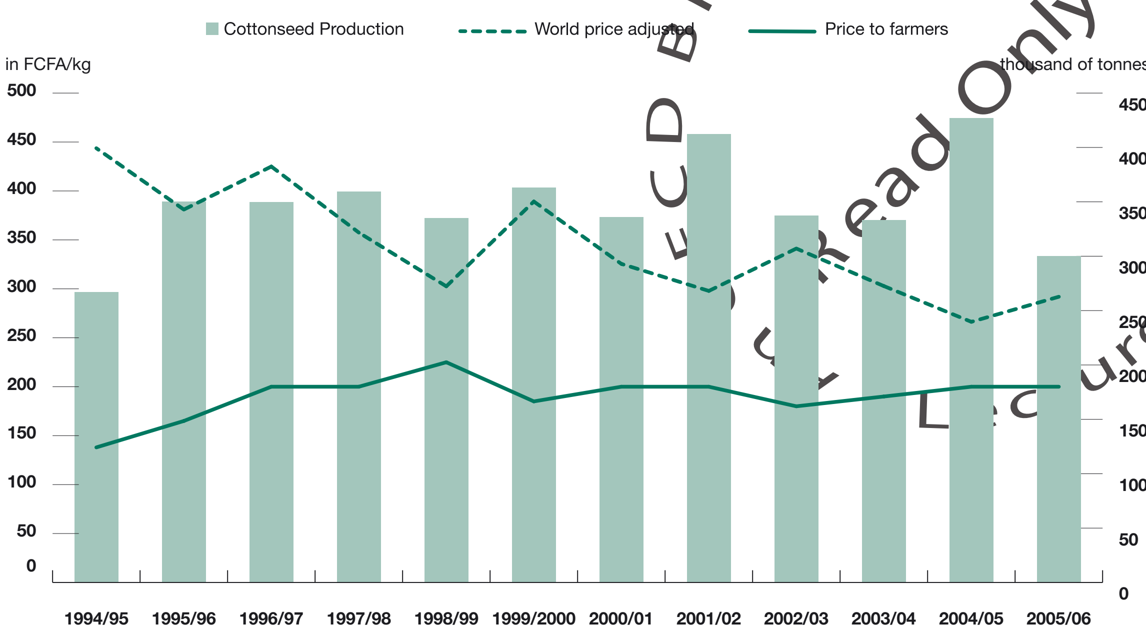
Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Note: National accounting includes agricultural years n/n+1 in GDP of year n; hence figures refer to 2004/5.
Source: Authors' estimates based on INSAE data.

While the primary sector was the driving force behind growth in terms of volume in 2004 (with a progression of 6.4 per cent), the spin-off effect on the secondary and tertiary sectors was cancelled out by the weak competitiveness of the industrial sector and the reduction in exports and re-exports to Nigeria. The secondary sector declined 0.5 per cent in 2004 contrary to an increase of 3 per cent in 2003. This decline was due to the textile, chemical and food industries, since their production is mostly destined for Nigeria. The tertiary sector only grew 0.4 per cent, compared with 6.4 per cent in 2003; this was also due to the decline in trade and affected all branches of trade, transport, banking and insurance. These trends were reversed in 2005. The decline in cotton production caused a fall in the growth rate of the primary sector to around

Figure 4 - **Cotton Production and Prices in Benin**



Source : INSAE data.

0.9 per cent. However, if trade relations with Nigeria resume, then this could have a positive effect on growth in the secondary and tertiary sectors. Predicted growth rates are 7.7 and 4.5 per cent respectively, although some figures for the first six months for the secondary sector do not appear to be very encouraging, with a drop in production of 22.3 per cent for the food industry, 21.2 per cent for the textile industry, and 10.7 per cent for the chemical industry (with a substantial fall in the production of industrial gas).

The adverse effects of the increase in oil prices are nevertheless likely to make themselves felt for the year 2005. Even if this increase could generate revenue of 10 billion CFA francs for the State in 2005 through indirect taxes on petroleum products, the overall cost to the economy could still amount to 1 per cent of GDP. Apart from the temporary effect on the economy, the supply of petroleum products faces structural problems which risk being a serious handicap to growth in the coming years. Storage capacity is insufficient at 125 000 tonnes, and storage installations suffer from obsolescence. Petroleum companies have failed to make the investments necessary for the maintenance of existing storage installations, and there is no longer a single working storage depot in the outlying regions. There are chronic petrol shortages at filling stations, and even the airport is affected. In such a situation, the proximity of Nigeria — 12th oil producer in the world and 3rd exporter of the members of the Organization of Petroleum Exporting Countries (OPEC) — has encouraged the appearance of illicit supply networks that provide about 60 per cent of Benin's fuel consumption. These networks are now firmly in place, but they are a very poor solution to the needs of the population. They depend on a profit confiscation strategy that is traditional in Benin, and they act as a brake on the necessary re-organisation of the legal supply system for petroleum products.

The effects of these problems with Nigeria and with cotton have led to the stagnation of private consumption and a decline in private investment. If the reduction in the budget deficit also held back growth, the improvement in the balance of trade had the opposite effect. Detailed analysis of demand composition shows that public investment increased by 11.2 per cent in 2004, compared with 8.2 per cent in 2003. The increase will be smaller in 2005, 7 per cent, as a result of the poor rate of implementation of

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**18.5**	**18.5**	**20.3**	**20.6**	**20.9**	**21.5**	**21.8**
Public	5.1	7.4	7.5	8.1	8.2	8.3	8.4
Private	13.4	11.1	12.8	12.5	12.7	13.2	13.3
Consumption	**85.8**	**90.3**	**89.8**	**87.9**	**91.0**	**91.0**	**89.9**
Public	13.2	12.3	12.6	12.1	12.9	12.8	12.8
Private	72.6	78.0	77.2	75.9	78.1	78.2	77.1
External sector	**-4.4**	**-8.7**	**-10.1**	**-8.6**	**-11.9**	**-12.5**	**-11.7**
Exports	27.2	22.2	21.0	20.0	17.5	16.9	16.5
Imports	-31.5	-31.0	-31.1	-28.6	-29.5	-29.4	-28.2

Source: INSAE data; estimates (e) and projections (p) based on authors' calculations.

the poverty reduction strategy programme and as a result of measures to reduce investment expenditure by 40 billion compared with estimates, in order to limit the budget deficit. In this context, achievement of the Millennium Goals is seriously compromised. Private investment rose by only 1.9 per cent in 2004, while it had risen by 21.5 per cent in 2003. The year 2005 ought to show an improvement in private investment, with a rise forecast at 6 per cent. This trend should be confirmed in 2006 and 2007, along with a marked recovery in the industrial sector, whereas private investment was previously concentrated in construction and services (telecommunications and banking services). Consumption rose by only 1.6 per cent in 2004 compared with 5.1 per cent in 2003, resulting from the dual effect of a reduction in public consumption of 0.9 per cent and an increase in private consumption of 2 per cent. The upturn in consumption of approximately 7 per cent in 2005 will probably be short-lived, and 2006 and 2007 will no doubt be marked by sluggish private and public consumption, largely due to poor revenues from cotton and the reduction in public transfers. The restrictions imposed by the Nigerian authorities on imports from Benin have resulted in a fall in imports for re-export as well as a fall in exports. In 2005, with the normalisation of trade relations with Nigeria and a reduction of activity in the port of Lomé to the benefit of the port of Cotonou, imports and exports are expected to increase by 5.4 and 6.3 per cent respectively. In 2006, the fall in cotton exports will result in a deterioration of the external balance.

Macroeconomic Policies

Fiscal Policy

As a member of the West African Economic and Monetary Union (WAEMU), Benin is obliged to comply with eight convergence criteria. Budgetary performance in 2004 was distinguished by the fact that while compliance with first-level convergence criteria was achieved, this was true only for one second-level criterion. The wage bill to fiscal revenue ratio even deteriorated because of the insufficiency of fiscal revenues in 2004 and the increase in the wage bill as a result of the satisfaction of public servant union demands. Similarly, the tax burden has marked time since the year 2000, fluctuating between 14 per cent and 15 per cent. This development is closely linked to the rate of Value Added Tax (VAT), which has declined since the end of the 1990s. While the rate of VAT against GDP was 6.6 per cent in 1999, it was only 6.2 per cent in 2004: domestic VAT has continued to increase, accounting for 2.3 per cent of GDP in 2004, while VAT collected at customs accounted for a declining share of GDP, falling to 3.9 per cent in 2004. This change is a reminder of the dependence of Benin's economy on Nigeria. Nigerian imports of Beninese products make up part of Benin's customs duty tax base and VAT, because the products are in the hands of consumers before being dispatched fraudulently into Nigeria. The high duties and import bans on many consumer goods in Nigeria have in fact encouraged the practice of importing them into

Benin and then fraudulently re-exporting them to Nigeria.

The year 2004 was marked by significant budgetary tensions with regard to both revenue and expenditure, and this created the need for halfway budgetary repositioning. Initial forecasts had predicted that revenue would be 380.4 billion CFA francs, but it only amounted to 351.4 billion. These mediocre results are primarily due to the difficulties of collecting customs revenue. Whereas direct and indirect taxation increased by 6.5 per cent and showed results of 102 per cent, customs revenue was only 163.1 billion CFA francs, compared with an initial forecast of 188.7 billion. In spite of all the steps taken by the customs authorities to improve duty collection — especially the setting-up of ASYCUDA++, the reinforcement of the fight against fraud at the borders, and the stricter management of transit systems — the uncontrolled increase in exemptions (24.9 billion CFA francs compared with only 7.9 billion in 2003) cancelled out the efforts made in this respect.

Although most expenditure in 2004 was in line with forecasts, the wage bill rose uncontrollably to 118.3 billion CFA francs, compared with a predicted 114.1 billion. This overspending was due to the satisfaction of demands in certain categories, particularly the increases in salary awarded to permanent government officials and the increase in the rate of family allowances. In addition, there was frequent recourse to emergency budgetary management procedures in 2004 because of exceptional events: organisation of the junior league football African Cup of Nations (ACN), dispatch of troops to Côte d'Ivoire, settlements linked to the border dispute with Niger, and changes in the running costs of various institutions due to decentralisation. Expenditure within the framework of the Poverty Alleviation Strategy, for its part, reached 102 billion CFA francs, where it had originally been planned at 140.1 billion.

Adjustments made during this financial year enabled the government to contain the deterioration in the primary balance and to maintain the same overall balance. However, the budgetary situation remained precarious in 2005, and the discrepancies that had appeared in both expenditure and revenue led to the need to revise the budget framework in May in order to allow conclusion of a PRGF agreement with the IMF in August 2005. Total revenue should reach 392.8 billion CFA francs, which is an increase of 11.8 per cent compared with 2004. At the end of August 2005, however, the implementation rate was only 57.4 per cent. In spite of the difficulties in collecting taxes and duties, reform of the tax system has been postponed until after the presidential election. With regard to expenditure, the government has been obliged to make budget cuts because of initially unplanned expenditure, that is, the granting of allowances to teachers and health workers (9.4 billion CFA francs) and payment of a subsidy to cotton producers (19 billion CFA francs). Emergency procedures were put into place to provide a bridging loan for the National Company for Agricultural Promotion (SONAPRA), advance funding for agricultural production, the payment of arrears to the Benin Electricity and Water Company (SBEE), and the settlement of a dispute on behalf of the Postal and Telecommunication Office (OPT). Consecutive budget cuts have not spared priority government ministries, which have seen their funding diminish by 2.4 per cent compared with funding initially allocated. Their budget share is expected to diminish from 55 per cent in 2004 to 52.3 per cent in 2005. In addition, with the approach of the election, the time is unsuitable for controlling expenditure, and at the end of 2005 and the beginning of 2006, there were new discrepancies. Hence both the primary balance and the overall balance deteriorated in 2005 and 2006, but these might improve in 2007 if measures envisaged for collecting taxes and duties, currently frozen because of the election, are rapidly implemented in 2006. An improvement in the implementation rate of expenditure allocated in the framework of Poverty Reduction Strategy Papers (PRSP) ought nevertheless to curb this reduction in budget deficits.

Unlike other countries in the WAEMU, Benin has not resorted to the emission of Treasury bills and bonds to finance its budget deficit. For Benin, external financing has remained the principal means of financing budget deficits.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**18.6**	**17.2**	**18.6**	**18.9**	**19.3**	**19.0**	**19.3**
Tax revenue	12.6	14.4	15.1	14.5	14.6	14.7	15.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending[a]	**17.7**	**19.5**	**20.5**	**20.8**	**21.9**	**21.7**	**21.8**
Current expenditure	11.3	13.2	13.9	13.9	14.8	14.6	14.6
Excluding interest	*9.7*	*12.5*	*13.3*	*13.6*	*14.6*	*14.4*	*14.5*
Wages and salaries	4.7	4.6	5.2	5.5	5.6	5.5	5.5
Interest	1.6	0.8	0.6	0.3	0.3	0.2	0.1
Capital expenditure	6.5	6.1	6.7	6.9	7.0	7.1	7.2
Primary balance	**2.5**	**-1.5**	**-1.3**	**-1.6**	**-2.3**	**-2.6**	**-2.4**
Overall balance	**0.9**	**-2.3**	**-1.9**	**-1.9**	**-2.6**	**-2.7**	**-2.5**

a. Only major items are reported.
Source: IMF and Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors' calculations.

The results of implementing the third objective of the PRSP concerning the strengthening of good governance and institutional capacity were hence poorer in 2004 than in 2003 with respect to public finance management. The delays in concluding public contracts were exceptionally long, there were low rates of expenditure implementation, and recourse to emergency procedures to allow expenditure increased.

Monetary Policy

Monetary policy at regional level is essentially the responsibility of the Central Bank of West African States (CBWAS) and aims to guarantee sufficient official reserve levels and to control inflation. At the end of December 2004, the net external assets of the monetary institutions were valued at 244.2 billion CFA francs, a clear reduction of 45.8 billion compared with the same period in 2003. Assets are expected to fall further during 2005. Credits to the economy increased by 22.1 billion CFA francs, to 273.1 billion. Due largely to a good food-crop harvest, price rises remained moderate in 2004, with an inflation rate of 0.9 per cent. The inflation rate is expected to be much higher in 2005, around 4.7 per cent. Prices of food products increased by 8 per cent during the first six months of the year, while prices of housing, water, electricity and other fuels rose by 7 per cent, and transport prices by 4.6 per cent. The inflation rate is expected to be lower in 2006 as tensions in the food products market come to an end, and to fall below 3 per cent in 2007, changes in oil prices permitting.

External Position

Benin maintains special economic and trade relations with Nigeria. Apart from the sociological and historical reasons for this, these relations are closely linked with Nigeria's trade and monetary policy. The last three years have been marked by Nigeria's policy of restricting imports from Benin, Togo and Ghana. In August 2003, Nigeria banned the import of 44 categories of products from these three countries. Among these 44 banned products are rice, poultry meat and cooking oils, which make a significant contribution to Benin's exports. Large financial trading companies hence suffered a slow-down of their activities. Furthermore, the tougher stance adopted by Nigeria on controls of banned products and the threats of complete border closures at the beginning of 2004 had a negative effect on Nigerian demand for Beninese products. However, after the end of 2004, dynamic informal trade networks somewhat weakened the effects of these bans, and trade relations with Nigeria eased in 2005: a bilateral agreement was signed in April 2005 allowing Beninese companies to export products made in Benin into Nigeria, but prohibiting re-exportation. Twelve production companies were therefore able to obtain authorisation to export textiles, cooking oils and building materials.

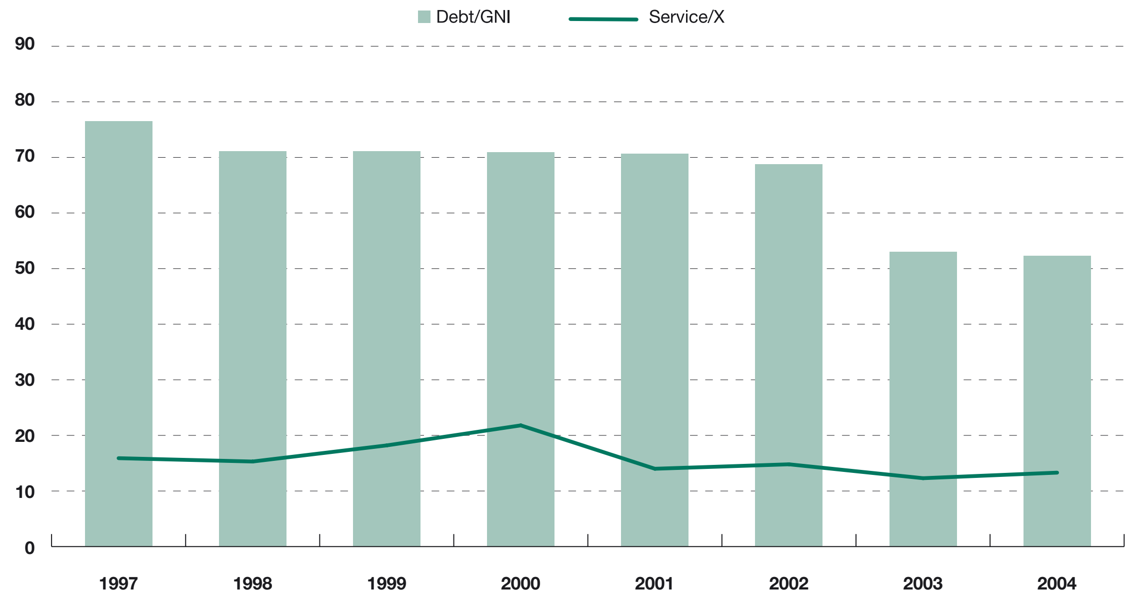
Although 2004 was difficult insofar as trade relations with Nigeria were concerned, it also showed an improvement in Benin's external position. The overall

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-5.7	-8.2	-7.8	-6.4	-9.4	-10.2	-9.4
Exports of goods (f.o.b.)	17.6	16.0	15.2	14.2	12.2	11.5	11.3
Imports of goods (f.o.b.)	-23.3	-24.2	-23.0	-20.6	-21.6	-21.7	-20.7
Services	-3.6	-2.9	-3.4	-2.0			
Factor income	-1.3	-0.5	-0.5	-0.5			
Current transfers	4.4	5.6	1.6	2.4			
Current account balance	**-6.2**	**-6.1**	**-10.1**	**-6.5**			

Source: CBWAS data; estimates (e) and projections (p) based on authors' calculations.

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



Source: IMF and World Bank.

deficit in the balance of payments represented 6.5 per cent of GDP in 2004, compared with 10.1 per cent in 2003. This improvement was largely due to favourable results in the capital account and in financial operations, particularly as regards international development aid and debt remission, but it was also due to a reduction in the current account deficit. The year 2005 has been characterised by a deterioration in the balance of trade linked to the resumption of imports "for Nigeria", and by the difficulties of accounting for informal re-exports. This deterioration will become more apparent in 2006 because of mediocre cotton exports.

At the end of 2004, external debt represented 52.3 per cent of GDP, and debt service 13.3 per cent of exports with 83.3 per cent of external debt consisting of multilateral loans. Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative represented 0.64 per cent of GDP in 2004.

Structural Issues

From the beginning of the 1990s, Benin has launched far-reaching economic reforms. Liberalisation of the economy and privatisation of state-owned enterprises were the first issues to be tackled. The process of liberalising state-owned enterprises has met with mixed success, and the public-service nature of some of their activities has made this a complex process.

Recent Developments

In 2004, the OPT was separated into two distinct bodies: Benin Telecom plc (Société Bénin Telecom S.A.), and Benin Post Office plc (Poste du Bénin S.A.). The process of privatising Benin Telecom plc. is planned for completion in the next few months. Nevertheless, difficulties remain: because the process was taking an excessive amount of time, the consortium of companies negotiated an amendment to the contract, and the national regulatory council for the sector has still not been set up. Splitting up the SBEE into two distinct companies was undertaken in 2003 and 2004. Several market research firms were hired to manage the granting of the SBEE concession. This process should have been completed in October 2005, but has fallen behind schedule for several reasons: delays in voting the law governing national electricity legislation, a delay in publishing the decree relating to the national regulatory body for the sector, and finally, negotiations with the workers in the newly formed SBEE. With regard to the agricultural sector, the privatisation of the remaining units of SONAPRA is under way, and also the process of privatising the industrial branch of the National Timber Bureau (Office national du bois – ONAB) is continuing and the results of negotiations with the Canadian buyer in this regard have been accepted by the government. However, other privatisation processes and granting of concessions have been slower, especially those relating to the COTEB-Parakou textile company and the Benin-Niger Railway (Organisation commune Bénin-Niger des chemins de fer et des transports – OCBN). Moreover, given the inconclusive experience of the new, wholly privatised, regulatory system in the cotton sector, there are doubts as to whether Benin private economic players are able to regulate the sector sufficiently well for it to contribute to the country's development. The industrial infrastructure is still at a very early stage: it consists of a few agro-industrial and textile units and fails to take advantage of the opportunities offered by the vast Nigerian market.

The cotton sector in Benin is one of the main driving forces of the national economy. There are 325 000 cotton producers whose activity provides a means of living for approximately 2 million people. Cotton represents 80 per cent of the country's export earnings and forms 12 per cent of GDP. The organisation of this sector has undergone vast changes over the last fifteen years. The present institutional framework dates from the year 2000. Now in the hands of the private sector, the cotton sector is managed by the Cotton Inter-professional Association (Association Interprofessionnelle de Coton – AIC) that groups together all the categories of professionals (producers, cotton ginners, distributors of produce) and the State. The final stage of the reform, that is, the privatisation of the remaining ginning factories belonging to SONAPRA as four separate units, is under way. In July 2005, a draft agreement was signed with buyers for units 1, 2, and 4. The final transfer price is still under negotiation, and is expected to be set according to the cost of overhauling production tools with a discount calculated on the basis of depreciation costs over one year. The government has confirmed that it would like to dispose of the final unit when the transfer of the other three units has been completed.

The new regulatory system that has been set up is malfunctioning in several ways, and this is a problem which does not look as though it will be readily resolved. Some of the players have not yet shown any respect for the rules by which a vertically integrated private sector should be run. Many players lack professionalism, and this undermines the sector, as does the dispersal of the various categories into a number of different structures with a view to defending individual interests. Producers were initially grouped under the Producer Union Federation of Benin (Fédération des unions de producteurs du Bénin – FUPRO), but are now spread over five different groups. Also, some ginning companies have left the Ginners Association of Benin (Association professionnelle des égreneurs du Bénin –APEB), and dissent within the Professional Association of Input Distributors (Groupement professionnel des distributeurs d'intrants agricoles – GPDIA) led to the creation of a second association.

During the year 2004/05, in spite of the solidarity agreement between ginners, two cotton ginners refused to take part in ginning operations. The government therefore intervened in order to re-allocate ginning quotas. Others fell behind with payments to the Group Securing Payments and Debt Recovery (Centrale de sécurisation des paiements et du recouvrement – CSPR), whose main function is to guarantee the security of payments for input credits and payments involved in purchases and sales of cotton. Finally, fertiliser deliveries were very late. In spite of all these events, the year 2004/05 showed a record production of 427 700 tonnes of cottonseed, due to the satisfactory payment of producers in the preceding year and to various government measures, notably the purchase price subsidy to producers of 43 CFA francs/kg.

In an effort to address the sector's structural problems, the government and the AIC signed an outline agreement in February 2005: this agreement set out the responsibilities of each player in the sector, and also made provision for the setting-up of a consolidation fund. In spite of a "government crusade" in the countryside to encourage producers to plant, 2005/06 is nevertheless likely to show a considerable fall in production to between 250 000 and 320 000 tonnes, mainly because of payment arrears to producers amounting to 12 billion CFA francs, but also because of high prices for food crops. The arrears were due to the difficulties encountered by the government in paying out the agreed subsidy for a record production of 427 700 tonnes, and the bankruptcy of an unscrupulous cotton ginner, who fled the country without paying producers for cotton produced.

The competitiveness of Benin's cotton production is put under strain by political costs encountered at several levels in the sector, and the authorities' slide into mercenary behaviour prevents the implementation of long-term strategies for cotton, and indeed for agriculture as a whole. Hence the diversification of agriculture seems not to be a priority; it also comes up against land problems, including rural tracks that are inadequate for opening up producer regions, and the lack of small-scale conversion plants that could respond to Nigerian demand.

Benin's banking sector was further consolidated in 2004 and 2005. The situation of three banks that had been placed under provisional management was restored to normal in 2005. Prudential ratios were respected, except with regard to the structure of the portfolio: short-term resources represented 51.4 per cent of the resources of Beninese banks. Outstanding debts increased slightly, but remained at a low level (7.6 per cent). In spite of the arrival of five new banks in two years, the Beninese banking sector has remained highly concentrated, with three banks holding a total of over 75 per cent of deposits.

In spite of the healthy prudential situation of the banking sector, financial intermediation has remained limited. Credits to the economy represented 14.5 per cent of GDP in December 2004. In the first six months of 2005, deposits grew by 3 per cent, and loans by 0.8 per cent. Fifty per cent of loans were granted to about 30 companies, mostly in services (39 per cent) and trade (34 per cent). In an economy of trade and services such as this, the role of the banking sector in development financing is marginal, and its main activity consists of granting commercial short-term loans (64 per cent of loans). The scarcity of long-term resources and the small number of bankable projects hold back business investment financing.

The intermediation ratio M2/GDP (money supply/GDP) remained unchanged, at around 32 per cent. Cotonou is the second financial centre in the WAEMU in terms of the availability of liquidities. Financial intermediation at regional level could therefore prove to be a future path for Benin's economy to follow, thanks to the country's political stability and the importance of formal and informal commercial activities.

Microfinance, which has an essential role to play in the fight against poverty, experienced continued growth in 2004 and 2005. Risks remained limited, and outstanding debts represented barely 12 per cent of the portfolio of microfinance institutions. However, the regional stock exchange for stocks and shares (Bourse régionale des valeurs mobilières – BRVM) attracted few investments and was little-used.

Transport Infrastructure

Transport infrastructure has a vital role to play in the economic and social development of the country.

In Benin, it was designed to facilitate the distribution and sale of income-generating products, mainly cotton, to promote goods transit towards neighbouring countries, and to facilitate trade between towns and rural areas. The formal transport sector contributes approximately 7 per cent of GDP, but its indirect contribution to the creation of value added is much greater.

The country possesses a road network totalling about 19 000 km. The graded network, made up of inter-state roads, trunk roads, and roads and tracks linking the main departmental centres, accounts for 6 076 km. Only 1 810 km of the road network are asphalt-covered, and these are mostly transit routes. The Cotonou-Niamey corridor, which is 1 056 km long, competes with the Lomé-Niamey corridor, which is slightly longer. The average cost of transporting a container to Niamey is $2 200 starting from Cotonou and $3 160 starting from Lomé. The cost per kilometre is lower in Benin ($2.08) than in Togo ($2.56), and slightly lower than the regional average. The rural track network and inter-urban links are nevertheless inadequate, and many geographical areas remain isolated. The present decentralisation process has created strong demand for the improvement of internal services. Maintenance of rural tracks has become the responsibility of the districts. In the framework of the programme to fight against corruption, illegal roadblocks (set up by police, gendarmerie, customs officials and even local authorities) have decreased slightly.

The port of Cotonou is the life-blood of the country's economic activity. The port is presently managed by an autonomous port authority, the Port autonome de Cotonou (PAC), but in 2006 management will be handed over to a private company made up of all of the private and public port operators. Public holdings should make up 51 per cent of capital, with a blocking minority of 30 per cent in the PAC. The initial loading/unloading capacity of the port was about 2.3 million tonnes per annum, but in 2004 the port handled 4 million tonnes of goods, which represented a fall of 7 per cent compared with the previous year, mainly due to Nigeria's import ban on 44 products. Hence the present facilities are outdated, and the port of Cotonou is one of the least competitive in the sub-region. The main problems faced by the economic operators are: silting-up, limited platform size, and malfunctioning of many of the port services. The completion of a "one-stop shop" type of reform at the end of 2005 is expected to lead to a substantial reduction in the time required for exporting goods from the port. An extension to the port is planned, including the construction of a dry dock in the outskirts of Cotonou. However, the idea of constructing a second port has been abandoned by the authorities for the moment. Finally, river and lagoon transport is still in its infancy, although this has potential for opening up some areas and developing tourism.

Benin possesses one international airport and five airfields. Even allowing for the geographical configuration of the country, internal links are inexistent. The runway at the international airport will in future probably become too short for jumbo jets. A project for building a new airport to the north of Cotonou is under consideration, but this will probably not be implemented in the short term. The national civil aviation authority (Agence nationale pour l'aviation civile – ANAC) and the national meteorological office (Direction nationale de la méteorologie –DNM) are still not operational.

Benin possesses a single railway line which stretches for 438 km and runs into Niger. It is controlled by the Benin-Niger Railway (OCBN). Goods traffic volume is very low, due to a break in trans-shipment at Parakou where goods have to be transferred onto lorries. Rail transport therefore finds itself in fierce competition with road transport from Cotonou. The extension and rehabilitation of this mode of transport in the south-north corridor has been held back by energetic lobbying by road haulage contractors and by a "wait-and-see" policy on the part of the Nigerian authorities.

Transport sector policy was defined in 1996 through close collaboration between the government and the private sector. This policy aimed primarily at increasing resources through cost-recovery from payments by travellers, to make a gradual transfer of government functions to the private sector, to improve the safety of goods and persons, and to adopt measures to protect the environment. However, results have fallen short of expectations. An updated strategy document is planned for completion at the beginning of 2006, and the guiding principle of this document will be to keep the transport sector a separate issue from the fight against poverty.

Although there are two pilot projects aimed at promoting the participation of the population in financing the upkeep of rural tracks, almost all of the financing for road infrastructure comes from the road fund (Fonds routier – FR) and from the partners in development. The FR was created in 1996 and is a legal entity possessing financial autonomy. It is the only government instrument that exists for financing road network maintenance. It obtains its revenue as follows: 75 per cent from designated taxes calculated as a fixed percentage of several taxes levied at customs at the port of Cotonou (VAT on imports, road tax, fuel taxes, and vehicle tax); 15 per cent from resources earned (tolls, taxes on bascule bridges); and 10 per cent from government subsidies. FR is a first-generation entity in that resources flow through the Treasury, and the private sector is not involved in its management.

Financing of the extension/rehabilitation and maintenance of road infrastructure is failing. The resources of the FR are mainly used for routine maintenance, and financing of rehabilitation expenditure is only possible when resources have been carried forward from previous years. However, external financing also makes a contribution to the construction and rehabilitation of the road network. Since 2003, the situation of the FR has deteriorated because of arrears in Treasury payments amounting to 1 225 billion CFA francs in 2004, and 4.45 billion in the first six months of 2005. Only half of the network benefited from routine maintenance in 2003 and 2004. In addition, investment programmes are dispersed throughout different government bodies — the Ministry of Public Works and Transport (MTPT), the Ministry of Agriculture, Breeding and Fishery (MAEP), and the Ministry of State in charge of Plan, Prospective and Development (MECPPD) — and the MTPT is unable to co-ordinate them. The majority of maintenance contracts are concluded with small and medium-sized businesses whose performances are mediocre due to their lack of organisation and low financial capacity, and due to the lack of public works equipment. The transformation of the former Directorate of Public Works Equipment (Direction du matériel de travaux publics – DMTP) into a hiring company (Société de location du matériel des travaux publics – SLMTP) has not fulfilled the requirements for reliable equipment, and so, in an attempt to overcome these shortcomings, some highly labour-intensive road works have been carried out on a pilot basis.

Political and Social Context

The advent of democracy in Benin has been an example for the whole sub-region: since 1990, presidential and parliamentary elections have been free, and in 2002 the democratic process expanded to include the first municipal elections. Since then, the country has embarked upon a vast programme of decentralisation that should result in the transfer of capacity and of means of action to the districts. Seventy-five of the 77 districts have a district development plan. (Cotonou does not have one.) However, the decentralisation process faces several difficulties: the division of responsibilities between mayors and district prefects has created tensions, and adequate running of the districts is seriously handicapped by the shortage of human resources available. In 2004, five mayors had to resign on account of bad management, and in 2005, eleven are under close surveillance. Lastly, financial transfers to the local authorities have been lower than commitments. At the end of August 2005, road taxes and VAT amounting to 10 billion CFA francs had not yet been returned to the districts.

Benin was one of the first African countries where the transition to multiparty politics was peacefully achieved, at the parliamentary elections of March 1991. Today the country is at a new political turning point. Partly because of the decentralisation process, civil society is taking an increasing part in the political debate. However, the departure, for reasons of age, of Mathieu Kerekou and Nicéphore Soglo, who have been sharing power since 1990, has revealed the fragility of this democracy. The very open democratic process has raised concern and contains the risk of a break-up of national unity. Over 25 candidates have declared their intentions to run for election in the presidential election of April 2006. The population has lost much faith in the electoral system in recent years, and none of the candidates can claim to be representative at national level. Regional candidacies have weakened the electoral process and destroyed political debate. Although the electoral process is transparent — terms and laws are respected, and, for example, the Constitutional Court quashed the election of the autonomous national electoral commission (Commission électorale nationale autonome – CENA) in October 2005 because it was unrepresentative – the democratic process is becoming weaker: many associations lobbying for candidates have been exploiting the present crisis, and it has become common practice to offer monetary payments for rallying crowds. An occasional press has appeared, consisting of over a hundred titles published in support of one candidate or another. The independent traditional press has kept quiet, and is waiting for matters to quieten down after the presidential election. In a regional context in which the nation state is being more and more called into question (with crises in Côte d'Ivoire, Togo, Nigeria…), the coming election is high-risk. It marks the end of a political system. If the political stability achieved due to the charisma of the two former presidents is transformed into true democratic stability, the country could rapidly find itself on the way to lasting economic growth. Otherwise, especially if the new political class is unable to transcend regional divisions, the country could slide into a period of political instability and sluggish growth.

At the same time, improvement in private and public governance has been slow. Corruption is a blight which continues to hamper the competitiveness of the Beninese economy. Eighty per cent of the 400 companies which were formally questioned in the survey on the investment climate considered corruption to be a very serious obstacle to their development. Private companies cannot count on the judicial system to enforce their rights against the government or in the case of disputes over the implementation of commercial contracts. However, private companies also contribute to this mediocre business climate. It is not uncommon for companies to present several different sets of tax documents, one for the tax authorities, and another for the banks. The PRSP includes provisions for several types of action to moralise political and economic life (a watchdog for the fight against corruption, government reforms, decentralisation…)

The fragile economic situation and the mediocre business climate are not conducive to the improvement of the employment situation. The labour market in Benin is characterised by the early age at which children start work (in Cotonou, 14.1 per cent of children between 10 and 14 are working), by the discrepancy between the expectations of young people and real employment prospects (the rate of unemployment of graduates of technical colleges and universities is twice that of non-graduates), and by the predominance of the informal sector (80.3 per cent of the country's employment). Employment appears to be growing at only 1 per cent per annum, which is much lower than the rate of growth of the active population. The participation rate, which is more or less the same for men and women, is 59.9 per cent, but the rate of underemployment is 69.2 per cent. In such conditions, it seems difficult to hope for any significant reduction in poverty in Benin, especially as public expenditure in the framework of the PRSP has given poorer results than were hoped for.

The year 2004 was the second year of implementation of the PRSP. Progress in poverty reduction has nevertheless been slow. In 2004, Benin had 7.2 million inhabitants, 50 per cent of whom were under 16 years of age. Life expectancy at birth was 59.2 years, and was slightly higher for women than for men. The percentage of the population living below the poverty line was 28.5 per cent and this rate was higher in rural than in urban areas. Twenty-two per cent were even living in extreme poverty and suffering from food insufficiency, which was more acute in children under 5 years old. In 2004, the infant mortality rate was 66.8 per 1 000, and the rate of infant and child mortality was 105.1 per 1 000, both slightly lower than in 2003.

In 2004, only 39 per cent of the population used the health services, a figure which reflects the discrepancy between supply and demand for medical care and which also reveals the existence of barriers preventing access to health care, for example, spurious charges. Many health centres are badly equipped and are short of qualified staff. People therefore reserve their use of the health system for specific types of care: for example, in 2004, the coverage rate for pre-natal consultations was 91.2 per cent, but the rate fell to 40.7 per cent for post-natal consultations.

The country's health situation is characterised by the predominance of malaria, acute respiratory infections, and gastro-intestinal infections. In 2004, malaria represented 37 per cent of reasons for consultation. Although Benin is a country of transit, its HIV virus epidemic is relatively moderate, with a prevalence rate of 2.2 per cent. The male population is more affected, the sex ratio being 1.7 men to 1 woman. The population aged between 20 and 39 represents 57 per cent of total cases. The strategy in the fight against the spread of the HIV virus is essentially based on a policy of prevention and partial coverage of the cost of care. Nevertheless, the United Nations Children's Fund (UNICEF) has predicted that the number of AIDS orphans will have practically doubled by 2010.

Drinking water supply in rural areas has improved. Between 2002 and 2004, the access rate grew from 35 per cent to 39 per cent, and it is expected to reach 42 per cent in 2005. On the other hand, the situation with respect to hygiene and basic sanitation is cause for preoccupation. Diarrhoea is the third cause of infant mortality. In 2002, only 52.1 per cent of households had latrines and 81.5 per cent dumped their refuse outside elsewhere. In 2004, only 0.5 per cent of the budget of the Ministry of Public Health (MSP) was allocated to action in this area. The number of districts with access to electricity went up from 756 in 2003 to 825 in 2004.

Although health improvement is a priority objective, the Ministry of Public Health was not spared from the budget cuts of 2004, when its initial funding was reduced by 5.4 per cent. In addition, the budget implementation rate was only 65 per cent in December 2004. Health policy has given some positive results in the reduction of infant mortality, the diminution of the prevalence of the HIV virus in pregnant women, and the malaria mortality rate. However, budget restrictions constitute an obstacle to the removal of constraints of a more structural nature: insufficient basic social services, inadequate human resources (in terms of both quantity and quality) to run the systems, and the scant use of services made by the poorest members of the population because of the fairly substantial costs to be met by patients.

The literacy rate in Benin has remained low, at around 42 per cent in 2004. Nevertheless, national statistics for the 2003/04 school year corroborate the positive trends of recent years. The gross primary enrolment rate went up from 94 to 96 per cent between 2002/03 and 2003/04, the gross primary admission rate went up from 104 to 106 per cent, and the pupil/teacher ratio went down from 53 to 50. However, the education system has remained generally poor: primary completion rates have continued to stagnate at around 50 per cent, and the repetition rate was around 20 per cent. There were significant regional and gender imbalances. The gap in the gross enrolment rate for girls and boys was 24 points, compared with 32 points three years ago. The ministries responsible for education have also suffered budget cuts, but most importantly, the implementation rate, excluding salary expenditure, was low. The Ministry of Primary and Secondary Education (MEPS) submitted an implementation rate of 47 per cent for ordinary expenditure at the end of August 2004, and 37 per cent at the end of August 2005. The rate for capital expenditure was only 19 per cent. Sustained improvement of the educational system's effectiveness could suffer as a result of this mediocre budget performance.

Although in principle Benin respects the rules of law of the International Labour Organization (ILO) on child labour, it remains a hub for child trafficking in West Africa. The US Department of State has placed Benin in second position for states in which this trafficking still continues. According to UNICEF, each year several thousand minors from remote areas, most of whom are girls, become victims of well-organised networks and are sent to work in farms and mines in Cameroon, Gabon and Nigeria. It is hard to see how such practices could be eradicated when they depend on the socio-economic hardship of poor rural households.

Lastly, at the end of June 2005, Benin absorbed almost 25 000 Togolese refugees, following the disturbances that occurred after the presidential election in Togo.

Botswana

key figures

- Land area, thousands of km² 582
- Population, thousands (2005) 1 765
- GDP per capita, $ PPP valuation (2005/06) 10 755
- Life expectancy (2000-2005) 36.6
- Illiteracy rate (2005) 18.6

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/535357406726

Botswana

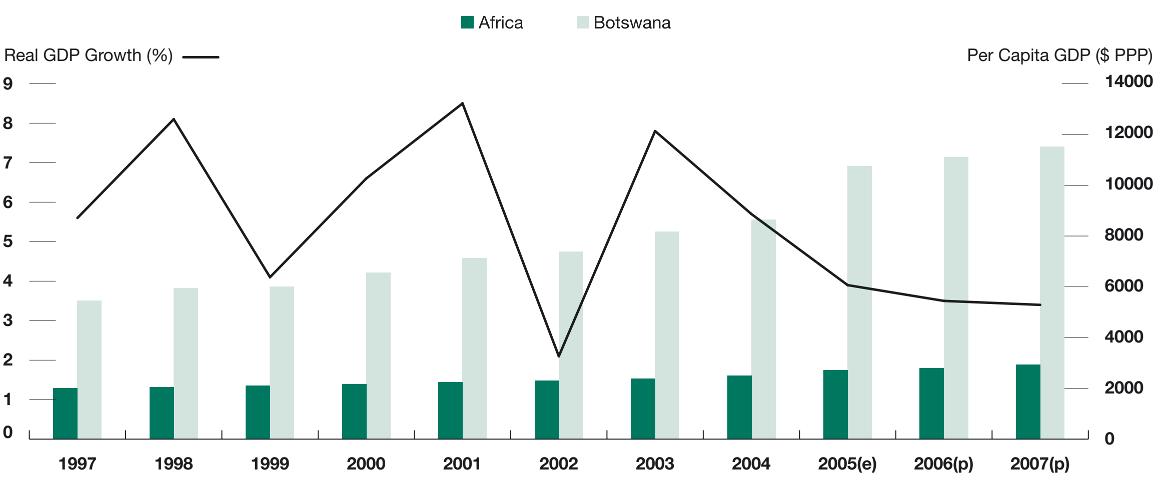
SOUND MACROECONOMIC POLICIES and prudent use of diamond revenues have made Botswana one of the fastest-growing countries in the world over the last 25 years, and it has now achieved middle-income status. Despite the government's efforts, however, the economy remains highly dependent on diamond exports, and the country continues to suffer from one of the highest HIV/AIDS infection rates in the world.

Botswana has an enviable record of political stability and economic achievement. Economic growth has slowed recently to about 4-5 per cent but remains satisfactory. In order to raise the growth rate to 7-8 per cent, as envisaged in the country's Vision 2016 plan, the government of Botswana is continuing with reforms aimed at diversifying production and exports away from diamonds. The 12 per cent devaluation of the pula at the end of May 2005 was controversial, but could give a boost to non-traditional exports. For the fifth consecutive year, the country has been rated as the least corrupt country in Africa and has the highest sovereign credit rating on the continent. To date, however, exports remain overwhelmingly dependent on diamonds and a few other minerals. Moreover, some structural reforms are lagging behind, notably with regard to privatisation and the labour market, and the World Bank recently rated the business climate in Mauritius, Namibia and South Africa as more favourable than that in Botswana[1]. The devaluation has also entailed a temporary surge in inflation.

Serious long-term development challenges remain despite current satisfactory growth.

Botswana faces serious long-term development challenges, notably its high rates of HIV/AIDS infection, poverty and unemployment. Although the HIV/AIDS prevalence rate has started to level off, thanks to sustained efforts by the government, the proportion of infected persons remains very high. Unemployment currently stands at 24 per cent, and about one-third of the population lives on less than $1 a day. Poverty reduction

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: Bank of Botswana and IMF data; estimates (e) and projections (p) based on authors' calculations.

1. Economist Intelligence Unit, Country Report on Botswana, December 2005.

and employment growth are contingent on further progress in diversification into more labour-intensive activities, as well as in combating HIV/AIDS.

Recent Economic Developments

Real GDP growth decelerated to 3.9 per cent in 2005/06, below the 5.7 per cent recorded in the preceding fiscal year. These overall growth outcomes reflected divergent trends in the mining and non-mining sectors. In 2004/05, the mining sector grew by nearly 7 per cent, this impressive growth rate being largely due to efficiency gains from the new Damtsha diamond mine near Orapa, as well as the Phoenix nickel and Mupane gold mines, while the non-mining sector grew by 5.1 per cent, held back by the appreciation of the real exchange rate and slow implementation of important policy reforms. In 2004/05, however, the growth in the mining sector is estimated to have slowed to around 2 per cent, while non-mining growth surged to 5.7 per cent. Real GDP growth is forecast to decrease slightly to a rate of about 3.5 per cent in 2006/07, owing to slow growth in mining activities. It is expected, however, that the recent devaluation of the pula and the introduction of a crawling peg exchange-rate system will restore the international competitiveness of the economy, setting the stage for the diversification efforts to bear fruit.

Mining accounts for about one-third of GDP, 90 per cent of export earnings and over 45 per cent of government revenue. Diamonds, in turn, are by far the most important mining sub-sector, generating 90 per cent of mining exports and 80 per cent of total exports.

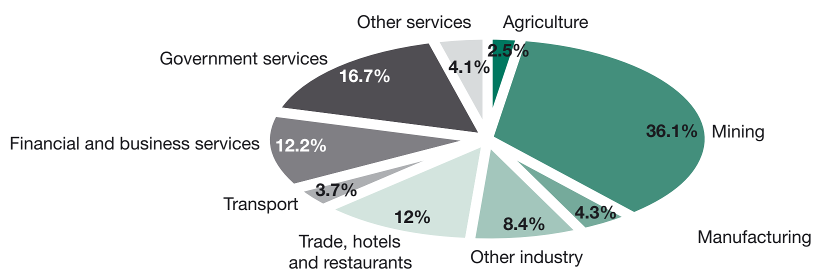
The share of mining has been declining, however, from over half of GDP in the late 1980s, with services filling the gap. Services accounted for 45 per cent of GDP in 2003/04, led by general government services at over 16 per cent of GDP, trade and hotels at 12 per cent and financial services at 12 per cent.

Tourism, although it contributes only 4 per cent to GDP, is Botswana's second-largest source of export earnings after diamonds, and a promising source of growth and employment, especially in rural areas. In 2004, the government initiated a new tourism policy, seeking to attract a more diverse range of tourists and to direct more of the benefits to rural communities. The listing of two tourism firms, AfriTourism Limited and Chobe Holdings, on the Botswana Stock Exchange is indicative of the emergence of Botswana's tourism industry. Another firm, Okavango Wilderness Safari, has been admitted to Botswana's International Financial Services Centre. The telecommunications sub-sector also expanded strongly in 2003/04, with mobile telephone services growing by over 15 per cent.

Agriculture, which was the largest sector when Botswana gained independence, now contributes only 2 per cent of GDP. Agricultural production was adversely affected in 2005 by drought, which hampered production of food crops.

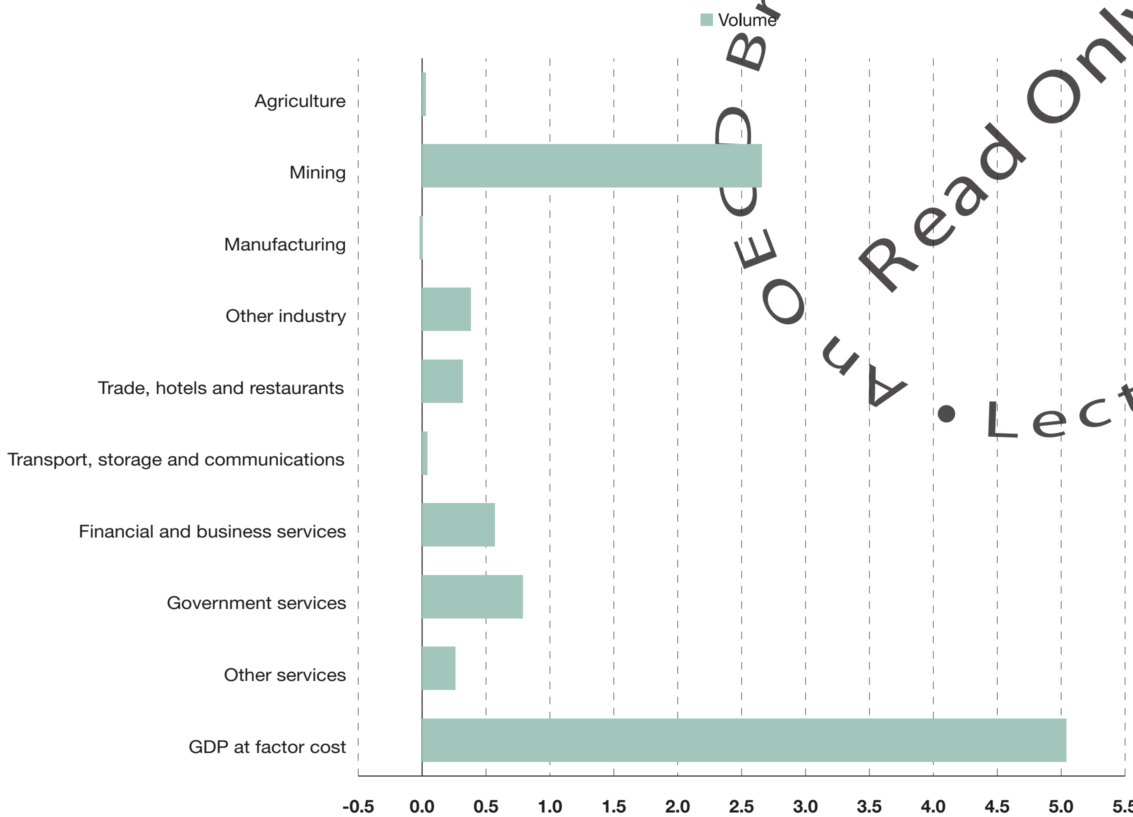
The manufacturing sector has also performed poorly, despite the efforts of the Botswana Export Development

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on Bank of Botswana data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on Bank of Botswana data.

and Investment Agency (BEDIA) to spur diversification. Manufacturing currently contributes less than 4 per cent of GDP, well below its 7 per cent share during the 1970s. Manufacturing is largely limited to a narrow range of activities, such as meat products, beer, textiles and garments, tannery and leather products, glass and information technology products, the latter including electronics, cell phone assembly and related products.

Private consumption, private investment and net exports all contributed to the slowdown in economic activity in 2004/05. The unplanned increase in the

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Gross capital formation	**26.0**	**26.2**	**29.2**	**30.0**	**31.8**	**32.8**	**33.3**
Public	12.5	11.9	11.1	10.5	11.0	11.0	10.8
Private	13.5	14.3	18.2	19.5	20.8	21.9	22.5
Consumption	**56.5**	**61.9**	**60.4**	**62.5**	**62.6**	**61.8**	**61.2**
Public	26.6	33.1	33.1	34.3	35.2	35.1	34.8
Private	30.0	28.8	27.2	28.1	27.4	26.7	26.4
External sector	**17.5**	**12.0**	**10.4**	**7.5**	**5.6**	**5.3**	**5.5**
Exports	55.7	48.8	43.9	39.8	38.7	40.2	40.2
Imports	-38.2	-36.8	-33.5	-32.2	-33.1	-34.9	-34.6

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

fiscal deficit, on the other hand, exerted a stabilising influence on demand.

Total gross domestic investment increased to 31.8 per cent of GDP in 2004/05, from 30 per cent in 2003/04, as private investment slowed less than overall GDP growth. Public investment also increased marginally from 10.5 per cent to 11 per cent of GDP during the same period. Domestic consumption rose marginally from 62.5 to 62.6 per cent of GDP between 2003/04 and 2004/05, while net exports declined from 7.5 per cent of GDP in 2003/04 to 5.6 per cent in 2004/05 as import growth outpaced export growth.

Macroeconomic Policies

Fiscal Policy

Macroeconomic policy in Botswana is guided by Vision 2016, a policy paper that sets ambitious goals for economic growth and poverty reduction. These goals are reflected in a series of national development plans, with the current 9th Plan (NDP9) covering the 2003-09 period. The NDP9 continues to stress macroeconomic stability and financial discipline as necessary conditions for long-term growth and poverty reduction.

The government aims to balance the budget over the NDP9 period, but it recorded a deficit in 2004/05 for the fourth consecutive fiscal year. The fiscal deficit for the year amounted to 1.8 per cent of GDP, whereas the government had anticipated a surplus of around 2.8 per cent of GDP. Slower than expected growth in both 2003/04 and 2004/05 entailed lower than expected tax revenues, particularly from non-mineral business income taxes and value added tax. Increased government expenditure on social services, including HIV/AIDS programmes, also contributed to the budget deficit. Total expenditure is estimated to have increased by 10.2 per cent in 2004/05, up from 8.9 per cent in 2003/04. Although the authorities are concerned about the recent budget deficits, they are facing pressure for additional spending on HIV/AIDS treatment and prevention and on deferred annual pay increases to public sector workers.

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Total revenue and grants[a]	**41.7**	**39.8**	**39.0**	**42.9**	**42.9**	**42.9**	**42.5**
Tax revenue	29.3	33.2	33.4	36.9	37.0	37.0	36.7
Grants	0.5	0.2	0.2	0.5	0.4	0.4	0.4
Total expenditure and net lending[a]	**33.9**	**42.8**	**42.8**	**43.6**	**44.7**	**44.7**	**45.0**
Current expenditure	22.4	31.1	31.5	34.6	35.3	35.2	35.0
Excluding interest	*21.9*	*30.8*	*31.3*	*34.3*	*35.1*	*35.0*	*34.8*
Wages and salaries	7.8	12.3	10.7	10.4	10.1	9.7	9.5
Interest	0.5	0.3	0.2	0.3	0.2	0.2	0.2
Capital expenditure	12.6	11.6	10.4	10.0	10.4	10.4	10.3
Primary balance	**8.3**	**-2.7**	**-3.6**	**-0.4**	**-1.5**	**-1.6**	**-2.4**
Overall balance	**7.7**	**-3.0**	**-3.8**	**-0.7**	**-1.8**	**-1.8**	**-2.6**

a: Only major items reported.
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Monetary Policy

Monetary policy in Botswana aims to achieve both low inflation and a stable real exchange rate to enhance international competitiveness. In 2005, the Bank of Botswana (BoB) lowered its target range for inflation to 3-5 per cent, from 3-6 per cent in 2004, in part because of lower inflation in Botswana's trading partners, mainly South Africa. The declining trend in inflation in early 2005 allowed the BoB to cut its rediscount rate by 25 basis points to 14 per cent in April. The continued oil price increases, however, coupled with the 12 per cent devaluation of the pula at the end of May 2005, pushed inflation up in 2005 to an average of 7 per cent, well above the BoB's target range. Core inflation stood at 7.4 per cent. Much of the increase in inflation reflected the pass-through of the devaluation, with an 8.7 per cent year-on-year increase in the cost of imported goods in mid-2005.

Following the devaluation, a crawling peg exchange-rate mechanism was instituted, under which the pula's value is linked to a basket of currencies of Botswana's main trading partners (the South African rand accounts for around 70 per cent of the basket) and allowed to adjust gradually, with the goal of avoiding large discrete changes. This policy is generally aimed at achieving a stable and competitive real exchange rate. Since mid-2000, the real effective exchange rate of the pula has appreciated relative to its long-term average level, adversely affecting competitiveness. The devaluations of February 2004 and May 2005, and the subsequent introduction of the crawling peg system, were aimed at restoring international competitiveness and stimulating non-traditional exports of goods and services such as tourism, textiles, financial services and horticulture.

External Position

As noted earlier, diamond exports continued to account for around 80 per cent of total export earnings in 2004/05. The other main export products are copper and nickel (5 per cent of total exports), textiles (3 per cent), beef (2 per cent) and soda ash (1.5 per cent). Total exports in real terms (constant 2000 prices) grew by 4 per cent to $2.867 billion in 2004, up from $2.756 billion in 2003. Real imports grew by the same percentage, from $1.965 billion in 2003 to $2.044 billion in 2004. Both exports and imports are estimated to have increased considerably during 2005, with the growth of imports outstripping that of exports due to higher import prices resulting from the February 2004 devaluation of the pula and increasing world oil prices. The current account surplus increased from $797 million in 2003 to $917 million in 2004 (7.7 per cent of GDP), but it is expected to narrow slightly in 2005 to around 7.5 per cent of GDP. In addition to the trade surplus, the current account surplus reflected an increase in net current transfers – largely official aid – from $287 million in 2003 to $491 million in 2004.

In recent years, Botswana's capital account has been nearly balanced, with a surplus of $22 million in 2003 falling to a mere $4 million in 2004, resulting in an overall balance-of-payments surplus (current account plus capital account plus net errors and omissions) of $801 million in 2004, up from $172 million the previous year. The decline in the capital account surplus was largely due to net outflows of foreign direct investment (FDI) worth $221.7 million in 2004, leading to a negative FDI figure in the balance of payments. This was the second time in four years (the other being in 2001) that FDI outflows outweighed inflows.

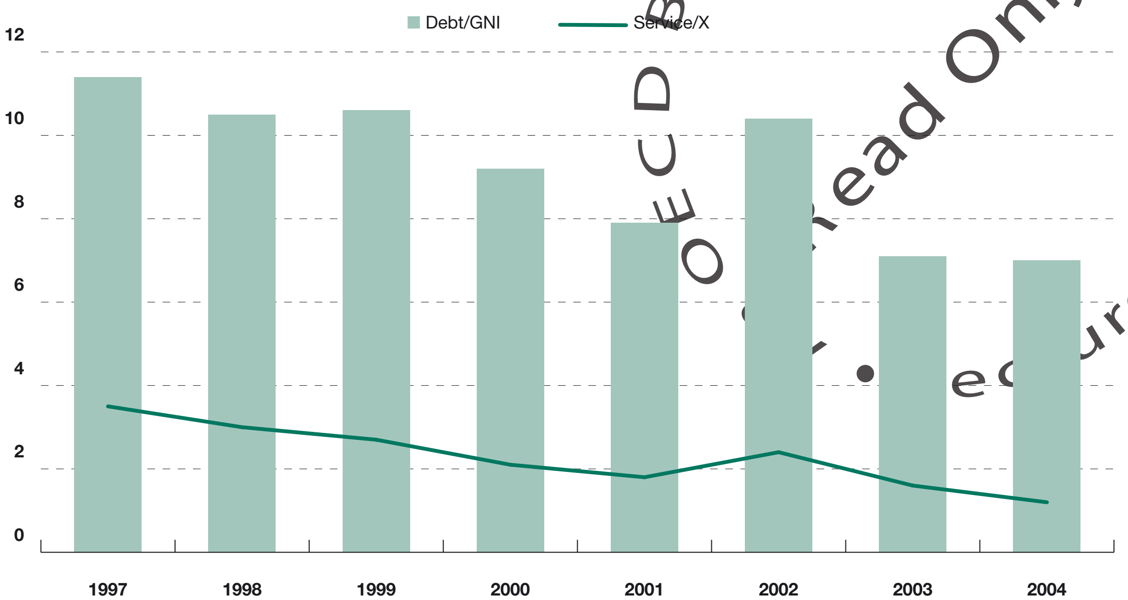
Botswana's foreign reserve holdings at end-2005 were estimated at around $6 billion, a more than adequate level equivalent to more than two years of imports.

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Trade balance	18.2	10.2	7.0	5.1	3.5	3.3	3.7
Exports of goods (f.o.b.)	51.6	40.7	34.8	31.4	30.7	32.1	32.3
Imports of goods (f.o.b.)	-33.4	-30.5	-27.7	-26.2	-27.1	-28.8	-28.6
Services	-4.7	-0.4	0.5	-0.2			
Factor income	-3.0	-13.8	-3.6	-2.9			
Current transfers	4.1	4.3	4.2	5.7			
Current account balance	**14.6**	**0.3**	**8.1**	**7.7**			

Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

Botswana's trade policy is largely determined by its membership in the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). Under the SACU agreement, all trade negotiations or agreements between Botswana and third parties must be accepted by the SACU. The SADC Trade Protocol, which came into effect in September 2000, envisaged the creation of an SADC free trade area by 2005. The current negotiations for an Economic Partnership Agreement between SADC and the European Union, launched in 2004, will play a key role in shaping Botswana's future trade policy in terms of tariff reforms, mainstreaming of trade into the country's national development strategy, trade-related investment measures (TRIMS) and trade-related intellectual property rights (TRIPS).

Botswana has also benefited from the United States' African Growth and Opportunity Act (AGOA), which provides duty-free access to the US market for over 65 000 products from eligible African countries, notably textiles and clothing. Initially, Botswana was classified as a middle-income country and therefore excluded from the AGOA provisions on textiles. In August 2002, however, the United States amended these provisions (AGOA II), allowing Botswana's textiles and garments to gain duty-free access to the US market. Botswana has been quite successful in attracting foreign investment in textiles and clothing for export to the United States under AGOA. However, the phasing out of the Multi-Fibre Arrangement (MFA) on textiles and clothing on 31 December 2004, which eliminated quotas on Asian exporters, has diminished the benefits of the AGOA to Africa.

The government of Botswana attaches high priority to attracting FDI. In 2004, the Botswana Export Development and Investment Authority (BEDIA) was established to increase FDI inflows. To date, BEDIA has helped to bring 20 companies employing a total of 4 400 people to Botswana. During the 2004/05 financial year alone, six companies started operations in the garment, milling, and wire manufacturing industries, and five more are expected to start up in Botswana in 2005/06. BEDIA also assists local investors through technical assistance on quality control, marketing and access to foreign markets. It should be recalled, however, that the value of these FDI flows is low.

Structural Issues

Recent Developments

The main policy goal of Botswana's NDP9 is to increase diversification of the economy to reduce dependence on diamonds and to foster employment in industries that use more labour. A mid-term review of the NDP9 carried out in 2005 revealed that the results in terms of economic growth and diversification were mixed and have fallen short of the NDP9 targets. The government is re-focusing its policies and strategies with a view to achieving these targets, including in the area of infrastructure provision.

Transport Infrastructure

One of the main impediments to higher growth through diversification of production and exports is the lack of essential infrastructure, including transport infrastructure, telecommunications, finance and energy.

As a land-locked country, Botswana is heavily dependent on road connections. The total road network is estimated at around 24 455 km, of which primary and secondary roads account for 8 916 km. Of the latter, 6 116 km are paved, 1 501 km are gravelled, and the remaining 1 299 km are dirt or sand roads. Fifty per cent of the road network, mainly highways, is overseen by the central government.

Funding for maintenance has been insufficient, giving rise to a maintenance backlog of 1 792 km; as a result, the existing road network is deteriorating, with some of the deterioration reaching a critical state. The following roads require reconstruction: Sekoma-Kokotsha, Sua Junction-Sua Pan, Nata-Kazungula, Nata-Gweta, Kang-Kukuntsi and Selebi Phikwe-Martins Drift.

Access to road transport services has improved in terms of waiting time and walking distances, but there is room for further improvement, especially in urban public transport. A number of roads and bridges are currently in various stages of preparation or construction.

The roads connecting Botswana to neighbouring countries are generally inadequate, but some of them are being improved. For instance, a bridge is under construction on the Kazungula road near the Zambian border. The four roads connecting Botswana and South Africa are inadequate for handling the heavy flow of traffic between the countries. Consultations are in progress on a memorandum of understanding regarding the design, construction and maintenance of roads and bridges along the border. Botswana has also signed a memorandum of understanding with Zimbabwe on construction of border bridges.

In view of the constraints on resources, the new strategy of the Ministry of Works and Transport emphasises public-private partnerships (PPPs) as a way of raising additional finance for road construction and improving efficiency. The Public Enterprise Evaluation and Privatisation Agency (PEEPA) is developing operational guidelines and procedures for use in implementing PPP projects. Currently, all of the central government's road building and regular maintenance, and 55 per cent of routine maintenance projects, are outsourced to the private sector. In addition, alternative methods for financing the construction and maintenance of roads, such as tolls, will be pursued under NDP9. A decision has been taken to set up toll gates along the A1 (Ramokgwebana-Ramatlabama) and A2 (Trans-Kalahari) highways in 2006/07. Other toll gates will be established on other roads during the rest of the NDP9 cycle.

Donors have funded much of the investment in roads in Botswana; for example, the Trans-Kalahari highway was partly funded by the African Development Bank. Historically, the share of donor funds in road investment was 90 per cent, but this has now declined dramatically to 50 per cent, with the government currently contributing the remaining 50 per cent.

Rail transport in Botswana is under-utilised because tracks and equipment are old and in poor condition. To improve rail service delivery and its public image, Botswana Railways adopted a five-year investment plan (2003-08). This entails undertaking the following new projects under NDP9: replacement of signalling and telecommunications systems; major overhaul of locomotives, wagons and coaches; rationalisation of operations and services; and drainage improvement for bridges and culverts. If completed successfully, these improvements will considerably enhance the safety, competitiveness, and quality of service and the overall financial viability of the railways.

Air transport is the only mode of transport that has experienced strong growth. The annual average growth rate of the air transport sector over the 2001-04 period was 8.5 per cent, contrasting sharply with the road transport sector, which recorded a negative annual average growth of 4.1 per cent over the same period. Despite the impressive growth of the air transport sector, airports and air traffic control in Botswana need to be improved to keep pace with increased traffic and modern standards. Some of the country's regional air traffic control systems are obsolete. The recent installation of very high frequency (VHF) equipment at two airports (Hukuntsi and Shakawe) has greatly improved communication between pilots and air traffic controllers, but other airports lack modern equipment. The equipment needed includes flight information display systems, closed-circuit television systems, baggage screening devices, anti-hijacking systems, public address systems and visual electronic signs.

The government is considering the establishment of an autonomous Civil Aviation Authority during the remainder of the NDP9 cycle. It is also liberalising air travel services in line with the SADC protocol on transport, communications and meteorology. Major airport development projects are planned, including upgrading and improvement of the Sir Seretse Khama Airport and the Maun, Kasane, Francistown and Shakawe airports, as well as the design and construction of Ghanzi airport. The government also intends to relocate some airfields, construct a National Civil Aviation Training Institute and resurface some existing airfields.

The state-owned Air Botswana has a fleet of three ATR42-500 turboprop aircraft and one BAe 146-100 aircraft. This fleet cannot meet Botswana's growing demand for air travel. No major new routes have been developed since the airline was restructured in 1994/95. Air Botswana has recently produced a five-year business plan for 2005-10, which seeks to position the airline as a strong regional carrier with an expanded network of services. The plan envisages the involvement of private operators who own small aircraft, as traffic on the domestic routes is very thin. The domestic routes already contracted to third parties include Francistown-Kasane and Francistown-Maun. At the regional level, the Maun-Victoria Falls and Johannesburg-Mashatu routes have been contracted out to third parties as well.

To reinforce its inadequate fleet, Air Botswana is planning to lease a second BAe 146 jet starting in 2005/06. This effort is required to face the challenges resulting from the liberalisation of the air transport market between Botswana and South Africa. The cargo market between the two countries is already completely open, and the passenger market is to follow by 2007. This poses a serious threat to Air Botswana, but it also provides an opportunity to penetrate the larger South African market, provided the airline acquires better aircraft.

Political and Social Context

Botswana has an impressive track record of peaceful succession through free and fair elections held every five years. The latest elections took place in October 2004, returning President Festus Mogae and his party, the Botswana Democratic Party (BDP), to power. Botswana is a multi-party democracy with a parliamentary system of government. In the last election, the ruling BDP won 44 out of the 57 parliamentary seats, with the remainder going to the opposition parties. The opposition parties are weak, fragmented and unable to co-operate, and as a result many voters have lost confidence in them. The ruling BDP is also now divided into two rival factions as the party searches for a successor to President Mogae in 2008. Female participation in politics is very limited despite the high level of gender equality in Botswana. At present, there are four women members of parliament, a mere 7 per cent of the total. This figure is far below the 30 per cent target established by the SADC protocol. In other branches of government, female representation averages 20 per cent.

Despite its excellent economic performance, Botswana faces the serious development challenges of high levels of poverty, high rates of unemployment and the HIV/AIDS pandemic. The recent status report on progress towards the Millennium Development Goals (MDGs) shows that the country has made much progress in achieving many of these goals, including those relating to poverty reduction. Nonetheless, the incidence of absolute poverty is still high. According to Botswana's Household Income and Expenditure Survey of 2003, the proportion of people living below the poverty line fell from 47 per cent in the early 1990s to around 30 per cent in 2003. Poverty is worse in rural areas, particularly among traditional hunting tribes. Poverty is also high among households headed by women, as traditional customs discriminate against them in areas such as inheritance. Traditionally, wealth in the form of cattle is passed from father to sons, not daughters, which makes it difficult for women to accumulate wealth. The government has instituted several social safety nets, however, including pensions, orphanages, war veteran allowances and relief funds for periods of drought.

Unemployment, estimated at 24 per cent of the labour force, is closely connected to poverty. While the unemployment rate in Botswana is high, it is much lower than in most countries in southern Africa, except for Mauritius. The problem is most prevalent among youth, notably secondary school dropouts. The unemployment rate among junior secondary school dropouts in the 15-19 age group is 75 per cent, and that for senior secondary school dropouts in the 20-24 age group, 60.4 per cent. Unemployment is also gradually increasing among university graduates with no work experience or job-specific skills. This also suggests, however, that the labour market in Botswana is not adjusting quickly enough to the rapidly changing demographic situation. The government is committed to introducing educational programmes that will impart skills and training to prepare students for employment in the private sector, which has become increasingly skill-intensive.

The other major development challenge facing Botswana is the HIV/AIDS pandemic. The pandemic is imposing high budgetary expenditures for treatment as well as disabling a sizeable part of the workforce, thus reducing employment and output. The government has developed a comprehensive national strategic framework (NSF) for HIV/AIDS, with the objective of an HIV-free generation by 2016. The three-pronged strategy of prevention, care and treatment has started to show positive results, but additional efforts are necessary if the NSF goals are to be reached. The proportion of the sexually active 15-49 age group living with AIDS appears to have stabilised at a very high rate of 35 per cent. While the increased government expenditure on the NSF is important, reducing the incidence of HIV infection also requires behavioural change. In this regard, the government's efforts are being complemented by non-governmental organisations, notably the US-based Global Fund, which recently allocated $18.5 million to be used over a two-year period for prevention, care and social support for those who are at risk of being or are already infected with HIV/AIDS. This initiative will also support alternative approaches such as hospice care, day-care centres and community-based counselling centres. Additional support is also being provided by national, bilateral and multilateral donors.

Despite these challenges, Botswana has made significant progress towards achieving some of the MDGs, including universal education and gender equality. According to national sources, the country has already achieved the 100 per cent target for primary school enrolment and a 100 per cent transition rate from primary education to junior secondary education. Secondary school enrolment is currently above 90 per cent, and the immediate focus is on raising it to 100 per cent within the next few years. The government is also striving to improve the quality of education at all levels, with strong emphasis on technical, management and vocational education. With respect to gender equality, Botswana has already surpassed its targets in primary and secondary education, with a net enrolment ratio for girls greater than that for boys. The female literacy rate also exceeds the male rate. Despite these impressive statistics, women remain relatively disadvantaged in terms of access to social services and economic opportunities, and they are also disproportionately afflicted with HIV/AIDS.

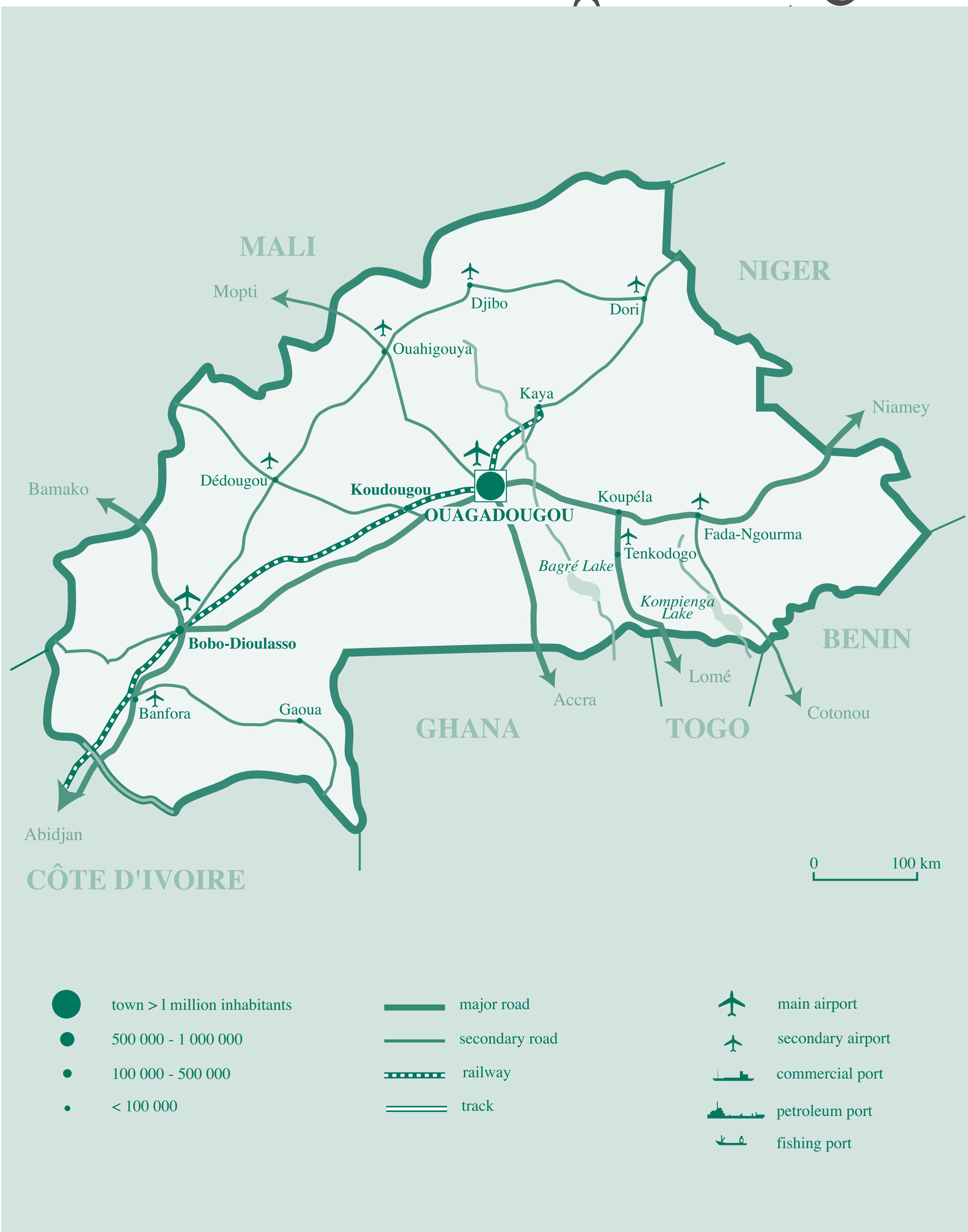
Burkina Faso

key figures

• Land area, thousands of km²	274
• Population, thousands (2005)	13 228
• GDP per capita, $ PPP valuation (2005)	1 085
• Life expectancy (2000-2005)	47.4
• Illiteracy rate (2005)	71.5

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/830215840706

Burkina Faso

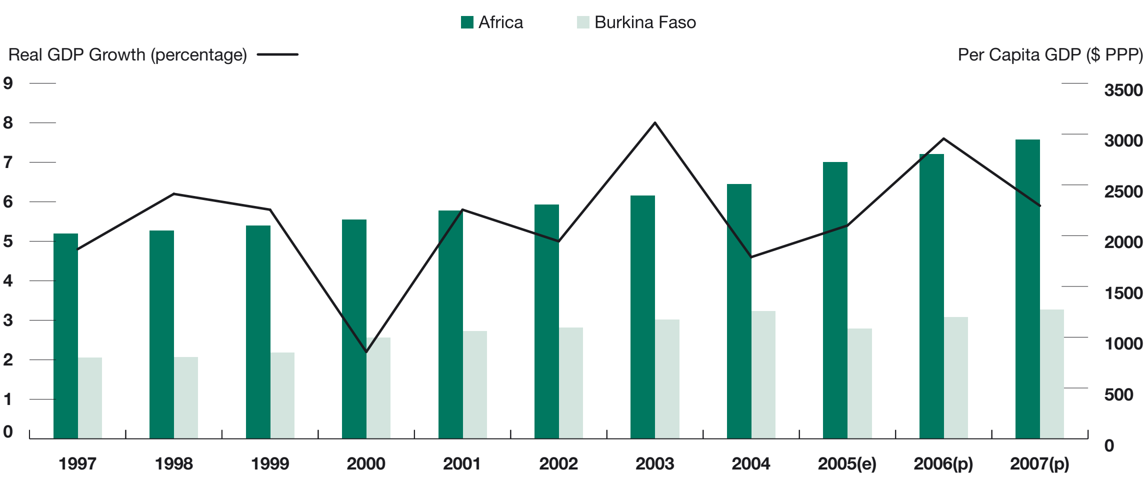


THE COUNTRY HAD A VERY MIXED YEAR in 2005. Between January and September a shortfall in the 2004/05 food-crop harvests created a sub-regional food crisis and a return of inflation. The economic climate was also affected by the delayed impact of the Ivorian crisis on transport costs (and thus supply of raw materials for industry) and by the sustained increase in oil prices. But these problems remained under control. The public adapted to higher fuel prices and the excellent 2004/05 cotton harvest (640 000 tonnes, up from 480 000 in 2003/04), all bought from farmers at a high 210 CFA francs a kg, sustained activity in the primary and secondary sectors and buoyed rural household income as well as exports during the first months of 2005. The year's very good rainfall produced a much higher food-crop harvest from September, (4 million tonnes, including a surplus of about 1 million tonnes), and cottonseed output was expected to be 720 000 tonnes. Locust swarms were predicted but did not materialise. The economy grew 5.4 per cent in 2005, largely boosted by primary sector growth.

The very high 2005/06 food-crop harvest, implementation of certain structural reforms and completion of key infrastructural work (road repairs, electricity link-ups and new dams) in this landlocked country promised more sustained growth in the next few years. Greater competition in the banking sector, with new banks and creation of the Banque régionale de solidarité specialising in micro-finance, should make for easier loans and encourage small business projects producing jobs. Cotton production continues to increase rapidly but farmers will get a much lower price (175 CFA francs/kg with no bonus) than in recent years. The national budget is in good shape and aid donors remain supportive, which should enable the government to play a dynamic role. Sustained growth is therefore expected for the next two years (7.6 per cent in 2006 and 5.9 per cent in 2007).

The respectable economic performance of 2005 cannot hide the vulnerability underlined by the food crisis at the beginning of the year.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and National authorities' data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

The primary sector (mining apart) accounted for 30 per cent of GDP in 2005 and had a mixed year. After a poor 2004/05 harvest which caused a food crisis during the dry season, the very good 2005 rainy season produced an exceptional 2005/06 harvest and the sector grew 13.5 per cent by volume in 2005.

The food crisis lasted from May to September 2005. Parts of three Sahel region provinces in the north (Soum, Seno and Oudalan) had already been hit by drought as well as by the summer 2004 locust invasion. Cereal prices were immediately affected in markets in the north (the price of a sack of maize rose 37 per cent between September and October 2004 in Dori and 25 per cent in Gorom-Gorom) and the inflation spread quickly to food markets in Ouagadougou (a 26 per cent increase in Sankaryare market). The crisis took hold in about 20 provinces in eight regions (Sahel, Nord, Centre-Nord, Centre, Plateau-Central, Centre-Ouest, Centre-Est and Est) in 2005. The price of maize jumped more than 50 per cent between January and June throughout the country. A 100 kg sack in the capital cost more than 27 000 CFA francs in September 2005 (compared with about 10 000 CFA francs normally).

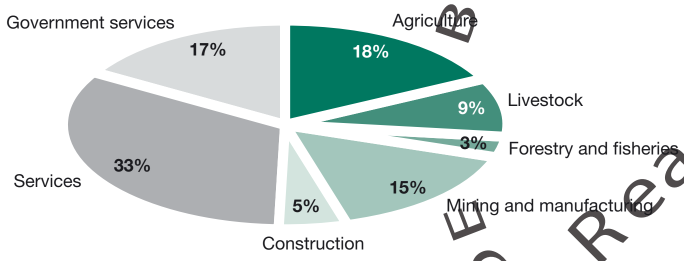
The seriousness of the crisis was a surprise. Several factors were involved. The 2004 rainy season had been poor (though still average for the previous five years) and its geographical distribution across the country and timing were very uneven. Pockets of drought very quickly appeared and rainfall was too irregular to produce a good crop of maize, the country's most-traded cereal. The cereal shortage and higher prices were aggravated by speculation by some traders, who hoarded grain until prices rose before selling it. Cereals were exported to neighbouring Mali and Niger, which also had food crises, causing further shortages in Burkina Faso and a sub-regional supply crisis. Exact figures on merchants' stocks and cereal export volumes are not available to show the relative influence of these factors.

The food crisis was dealt with in several stages. Cereals were handed out free in October and November 2004 and then sold at subsidised prices – 2 000 tonnes in February 2005 (at 5 500 CFA francs a sack compared with the market price of 10 000 CFA francs), 7 000 tonnes in July and 5 000 in August and September (at 10 000 CFA francs a sack, against a market price of more than 20 000 CFA francs). Emergency food aid by the government totalled more than 15 000 tonnes. NGOs helped greatly to ease the crisis, providing 10 000 tonnes free or at low prices, as did private donors (3 000 tonnes). The national food security stock management body Sonagess will in future be allowed to buy up cereal stocks to help with a new crisis. The stocks have hitherto simply been budgeted for. The total reconstitution of these emergency stocks is vital.

The 2005/06 cereals harvest, thanks to very good rainfall from May to October 2005, should exceed 4 million tonnes (up from the previous one's 2.9 million) and produce a surplus of more than 1 million tonnes. Locusts did not appear in 2005, despite fear that eggs laid during the 2004 invasion would hatch. The authorities are on the alert, as it is not known when the insects will return. The good harvest pushed prices down and the price of a sack of maize fell by about a third between September and November 2005 in most markets. It should return to a moderate price in 2006.

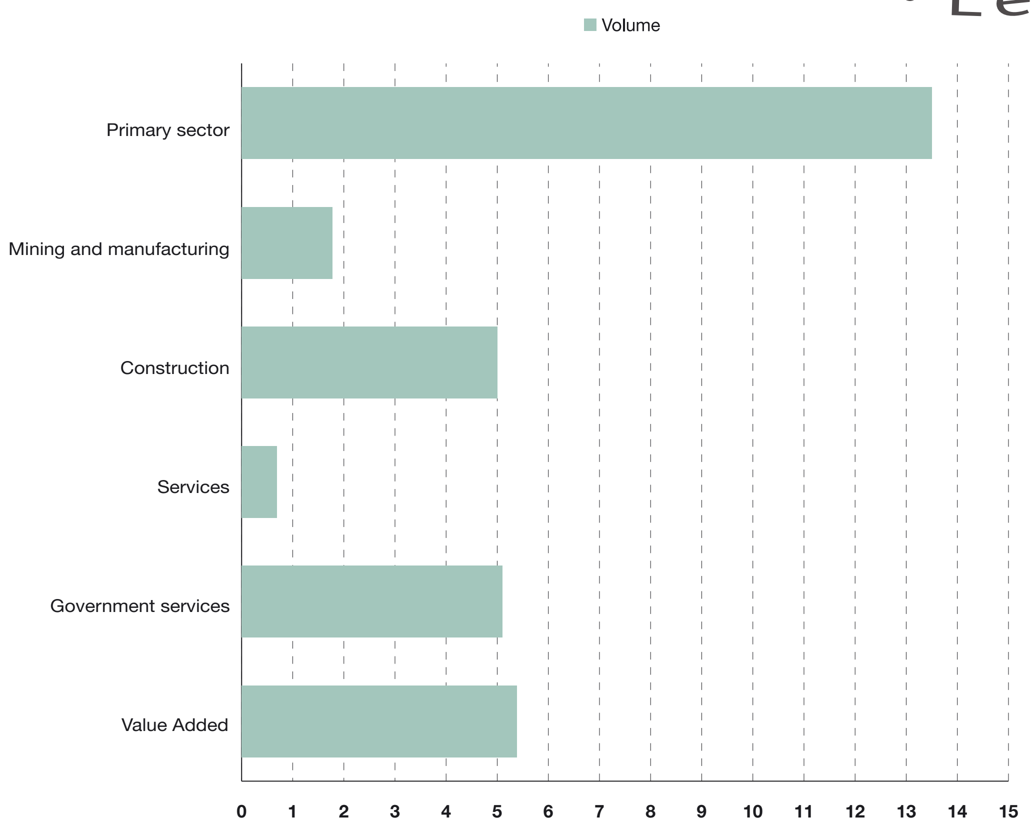
The 2004/05 cotton harvest was a record 640 000 tonnes of cottonseed and farmers were all paid 210 CFA francs a kg despite some collection problems in the Est region. But average world prices were low and the three main cotton firms ran up a combined deficit of 30 billion CFA francs. The banks (an international consortium for Sofitex and local banks for Faso Coton and Socoma) still agreed to fund purchase of inputs for the 2005/06 season. The 2005/06 harvest should reach 720 000 tonnes but the price to farmers will only be 175 francs CFA/kg. The new price was announced before sowing but after loans for inputs had been decided. The cotton firms should recover somewhat with this drop of more than 15 per cent in the price to growers. They are also counting on better world prices to restore the industry's balance. Export costs will remain high until arterial roads are repaired and security is guaranteed for rail traffic through Côte d'Ivoire.

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

The secondary sector (including extractive industries) contributed 20 per cent of the country's total added value in 2005. It has been badly hit by the Ivorian crisis, and temporary or permanent closure of factories in 2003 and 2004 weakened industrial prospects already greatly limited by lack of large processing plants. The sector also suffers from the shortage and high cost of factors of production (electricity, oil products and transport of raw materials) and so manufacturing (12 per cent of GDP) grew only slowly by volume in 2005 (1.3 per cent). Construction (5 per cent of GDP) showed healthy growth (5.1 per cent) because of increased property investment begun in 2004 (government urban renewal plans and a boom in private construction around Ouagadougou) and major efforts to build roads and other infrastructure. Extractive industries registered 26 per cent growth but were less than 0.1 per cent of GDP. The energy sector (electricity, gas and water) accounted for just over 2 per cent of GDP and grew 5.3 per cent.

Mining exploration was spurred by record world prices for gold and precious metals in 2005. The country still has no mining infrastructure. The most advanced project is at Taparko, between Kaya and Dori, run by the Canadian firm High River Gold. The mine should start producing by the end of 2006 at the earliest and produce 100 000 ounces a year from estimated reserves of at least 600 000 ounces. Many other mining projects are under way elsewhere in the country. Construction of the Younga gold mine, in Zabre province (near the Ghanaian border) officially began on 17 October 2005. The biggest project, at Essakan, near the north-eastern town of Dori (near the Niger border), is run jointly by the South African firm Gold Fields and the Canadian firm Orezone and could have reserves of several million ounces. Test boreholes are being drilled. Alluvial gold exports rose to an estimated 10 billion CFA francs in 2005 (from 7 billion in 2004).

Growth in the secondary sector slowed to 3 per cent in 2005 (down from 9.8 per cent in 2004) but should be boosted in 2006 and 2007 by major infrastructure projects funded by the government and aid donors.

The tertiary sector, which also slowed to 3 per cent (from 8 per cent in 2004), provided 50 per cent of GDP in 2005, mainly through import-export activity and telecommunications. The trade sector (14 per cent of GDP) grew 17 per cent. Mobile phones are booming and the number of users has increased by more than 15 per cent annually in recent years. The opening-up of the sector since 2000 has lowered charges and brought in three main firms – Celtel, Telecel, and Telmob, a subsidiary of Onatel – with a combined annual income of more than 80 billion CFA francs (about 3 per cent of GDP). The sector should continue to grow in the next few years, driven by privatisation of Onatel, the end of its fixed-line monopoly on 31 December 2005 and better communication infrastructure through greater bandwidth and connections with the outside world. Fixed phones are also expanding with a big increase in the number of call-centres in 2005 to about 12 000.

Overall growth was about 5.4 per cent in 2005, boosted by the very good 2005/06 harvest that considerably swelled stocks at the end of the year and by a 22.2 per cent volume increase in exports arising from excellent 2004/05 cotton production. Household consumption grew 4.1 per cent as a result of higher income from cotton, though food prices also went up. Investment rose thanks to a 10 per cent increase in private sector funding.

The exceptional 2005/06 food-crop harvest promises economic growth of 7.6 per cent in 2006, driven by an expected 8.9 per cent increase in household consumption. Exports will continue to increase (a predicted 8.1 per cent in 2006) because of higher cotton output. Government investment should rise by 10 per cent. Forecasts for 2007, based on average expected agricultural production, include a 15 per cent jump in private investment arising from implementation

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**28.7**	**18.6**	**20.5**	**20.5**	**21.6**	**22.2**	**23.8**
Public	13.4	10.9	11.1	11.5	11.9	12.2	12.9
Private	15.2	7.7	9.5	9.0	9.7	9.9	11.0
Consumption	**87.9**	**94.1**	**92.2**	**90.0**	**90.5**	**90.6**	**89.5**
Public	16.6	22.1	20.8	19.7	20.0	19.0	18.5
Private	71.3	72.0	71.4	70.3	70.5	71.6	71.0
External sector	**-16.6**	**-12.7**	**-12.7**	**-10.5**	**-12.1**	**-12.7**	**-13.3**
Exports	11.3	9.0	8.8	10.4	10.9	11.2	10.8
Imports	-27.9	-21.7	-21.5	-20.9	-23.0	-23.9	-24.2

Source: INSD data; estimates (e) and projections (p) based on authors' calculations.

of structural reforms and infrastructure projects vital to the landlocked country, such as road repairs, electricity link-ups and building of dams. Steady improvement in budget management and relations with development partners should enable the government to take a leading role in 2006 and 2007 and a 10 per cent increase in state investment is expected over these two years. If cotton production stays high, exports should grow somewhat, but the size of harvests and changing trade terms are hard to predict. The economy is thus growing strongly but is fragile and remains vulnerable to the weather and world commodity prices.

Macroeconomic Policies

Fiscal Policy

Inflation returned to several member countries of the West African Economic and Monetary Union (WAEMU) in 2005. Burkina Faso registered about 5 per cent as a result of the food crisis and higher oil prices. Public sector workers' salaries went up in 2004 (4 per cent), followed by similar rises for banking and insurance workers. Loans to the economy grew 7.6 per cent in 2005 (according to the Central Bank of West African States – BCEAO). The expected very good harvest should drive down consumer prices and more moderate inflation is expected in the next few years. But the cost of oil could further increase consumer prices although consumers adjusted to them, notably by cutting use of motor transport. The oil-importing firm Sonabhy, after trimming its margins to limit pump price increases, will have to pass on the higher price per barrel. Lower tax on oil products, unlikely anyway, would not be enough to make up for the rise in world prices.

The country will not meet all the WAEMU's primary convergence criteria in 2005. Inflation (5 per cent) exceeded the WAEMU's ceiling of 3 per cent. The basic fiscal balance criterion of a having a zero budget deficit will not be met either, with 2004's 1.4 per cent deficit increasing slightly to 1.6 per cent in 2005. Growth in spending (excluding debt-relief funds and externally-funded public investment) is now 11 per cent, while budget revenue (excluding grants) is only growing by 9 per cent. Other primary criteria will be met. Public external debt stabilised in 2005 at 34.8 per cent of GDP, helped largely by debt relief received under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Burkina Faso reached completion point in 2002. The country will therefore meet the criterion of public debt being under 70 per cent of GDP. Non-accumulation of payment arrears in the 2005 budget also meets the final primary criterion.

Public finances in November 2005 showed a continuing steady rise in tax revenue (of 10 to 15 per cent a year for the past five years), with an 11 per cent increase forecast at the end of the year (it was 6.7 per cent in the first nine months year-on-year). Budget revenue (except from privatisation) in the first nine months of 2005 exceeded IMF targets – at 278 billion CFA francs (the goal was 272 billion) and tax revenue should be 13.8 per cent of GDP (close to the 14 per cent target). Tax revenue performed best in domestic VAT (up 11 per cent in the first nine months year-on-year, an extra 10 billion CFA francs), taxes and duty on foreign trade (17 per cent more, an extra 6 billion CFA francs) and tax on company profits (up 10 per cent, or 3 billion CFA francs more). Tax on petroleum products (PPT) raised more than 17 billion CFA francs in the first nine months and the whole-year figure should be more than 2004's 23 billion CFA francs. The first nine months' results are less than budgeted for but are still net increases. The performances are tied to implementation of the plan to strengthen budget management (PRGB) and especially reorganisation of the central tax administration which now, instead of the national treasury, directly deducts tax from wages and salaries. An office was set up at the end of 2004 to deal with taxation of large firms, which had been badly neglected. Customs revenue was hit by establishment of the customs union but will be partly made up for by the WAEMU's arrangements. The Sydonia++ system now operating in several customs offices should improve collection and produce more reliable foreign trade figures. The privatisation of Onatel in 2006 should earn 15 billion CFA francs for the government.

This higher revenue and increased government spending are being used to boost the economy and fight poverty as part of a medium-term expenditure framework (MTEF). Current expenditure in 2005 grew 13 per cent, mainly as a result of a 15 per cent rise in wage and salaries planned since 2004 as well as extra recruitment, collectively costing 9 billion CFA francs. Subsidies to enable the electricity firm Sonabel to keep higher oil prices from pushing up the price of power are expected to be more than 20 billion CFA francs in 2005 (up from 13 billion in 2004). Capital expenditure should rise 5 per cent in 2005 and 10 per cent in 2006 reflecting the government's major infrastructure projects. HIPC funds disbursed in 2005 and deposited in a special anti-poverty account were 20.5 billion CFA francs. Since the start of the HIPC Initiative, the account has received 124 billion CFA francs. Half has been spent on the priority sectors of health and education and half on other anti-poverty action such as support for agriculture, social projects and job creation. The government's capacity to absorb these new funds is satisfactory. The budget deficit (including grants) in 2005 was stable at 4.1 per cent of GDP. The government's expansionist budget policy seems sustainable in view of its higher tax revenue.

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

	1997	2002	2003	2004	2005 (e)	2006 (p)	2007 (p)
Total revenue and grants[a]	**20.2**	**16.8**	**17.4**	**16.8**	**17.6**	**17.5**	**17.4**
Tax revenue	12.0	10.7	10.8	11.7	12.6	12.9	13.0
Grants	7.1	5.3	5.3	4.2	4.1	3.7	3.4
Total expenditure and net lending[a]	**22.4**	**21.3**	**20.3**	**21.2**	**21.7**	**21.2**	**21.5**
Current expenditure	10.2	11.2	10.4	10.9	11.0	10.3	9.9
Excluding interest	*9.3*	*10.4*	*9.7*	*10.3*	*10.4*	*10.0*	*9.8*
Wages and salaries	4.9	4.6	4.5	4.4	4.3	4.0	3.8
Interest	0.8	0.7	0.7	0.7	0.6	0.4	0.2
Capital expenditure	12.4	10.2	9.0	10.4	10.8	11.0	11.6
Primary balance	**-1.4**	**-3.8**	**-2.2**	**-3.6**	**-3.5**	**-3.3**	**-3.9**
Overall balance	**-2.2**	**-4.5**	**-2.9**	**-4.3**	**-4.1**	**-3.6**	**-4.1**

a. Only major items are reported.
Source: SP/PPF data; estimates (e) and projections (p) based on authors' calculations.

The four-part priority action programme (PAP), which implements and co-ordinates the poverty reduction strategy framework (PRSF), aims to speed up fair growth, give the poor access to basic social services and protection, increase job opportunities and income-generating activities and promote good governance. Some 402 billion CFA francs were spent on these efforts in 2005. About 390 billion have been allocated for 2006 (3 per cent less) and only 293 billion in 2007 (down 25 per cent). The distribution of the money is also changing. In 2005, the biggest slice (35 per cent) went on fair growth, consolidating macroeconomic stability and supporting the primary sector. In 2006, the priority will be job creation and income generation (35 per cent) and include opening up rural areas, which involves road programmes (which will get 20 billion CFA francs more in 2006). Spending on education and health will be slightly reduced. Good governance, which includes support for democratic and judicial institutions, strengthening the legal framework and decentralisation, gets a steady 10 per cent of PAP spending.

Good relations between Burkina Faso and its foreign funding sources provide substantial and continuous financing that covers the budget deficit and enables gradual implementation of the PAP, which has led to a clear and practical road-map enabling the government and its partners to work together. Total disbursements (loans and grants) in the first nine months of 2005 were 75 per cent of the budgeted amount for the whole year. Budget support funding increased, reflecting new methods of fighting poverty, and some 75 billion CFA francs in grants and soft loans were provided for this in the first nine months. Project aid also got 114 billion CFA francs, mainly in the form of loans (65 billion CFA francs). Government and donors signed an agreement in January 2005 setting up an organisational framework for budget support that will better incorporate budgetary aid in the government's financial planning.

The European Union (EU) will introduce a new disbursement mechanism in 2006 for non-specific budgetary aid. Disbursements in any given year (*n*) have hitherto been based on performance in year *n-1*. In view of the time needed to gather data and for donors then to assess progress towards targets, actual disbursement was never made before the second half of year *n*. That forced the government to take out short-term loans to finance the budget while waiting for the money or for April tax revenues and meant aid was seriously unpredictable. Assessment of performances for year *n+1* will now be done in year *n* on the basis of year *n-1* performances. The announced sum of budgetary aid can thus be incorporated into the annual budget and disbursed in the first half of each year. A review by the EU (the main donor) of the situation in mid-2004, conducted in February 2005, acknowledged good performance and led to increased aid for Burkina Faso.

Monetary Policy

The BCEAO tightened its monetary policy in the face of inflation by adjusting reserve requirements, enabling different measures in each member country, unlike the case of intervention rates which apply to all countries. Burkina Faso's bank reserve requirements were raised from 3 to 7 per cent on 16 June 2005. The money supply, which grew 8.6 per cent in 2005, should be reduced by this restriction of credit. Cotton exports boosted external reserves, which increased by about 8 per cent in 2005.

External Position

The country's trade deficit grew slightly in 2005, to 248 billion CFA francs (from 244 billion in 2004), or 10.2 per cent of GDP. The trade balance remains largely supported by cotton exports and was thus mainly dependent on changing terms of trade which, in view of low cotton prices and high oil product prices, are presently unfavourable.

Merchandise exports increased in value in 2005 by a modest 2.9 per cent compared with 2004 to 7.5 billion CFA francs. Cotton export earnings fell because of lower world prices despite higher production during the 2004/05 harvest. But cotton still represented 57 per cent of total exports, bringing in 150 billion CFA francs in 2005. Merchandise imports meanwhile rose 2.2 per cent to 509 billion CFA francs. More expensive oil products accounted for nearly 8 billion of the 11 billion CFA francs increase. The difficult situation at the start of the year was reflected in the stagnation of imports (except oil products) over the year which rose by less than 1 per cent compared with 2004. French customs mirror statistics showed that Burkina Faso's imports from OECD countries fell by 6 per cent year-on-year in the first 10 months of 2005. This reflects a smaller share of OECD-country goods in total imports and the strength of Burkina Faso's Asian trading partners, but also weak domestic demand for manufactured goods. Imports are expected to rise again at the end of the year as conditions improve slightly thanks to strong primary sector growth.

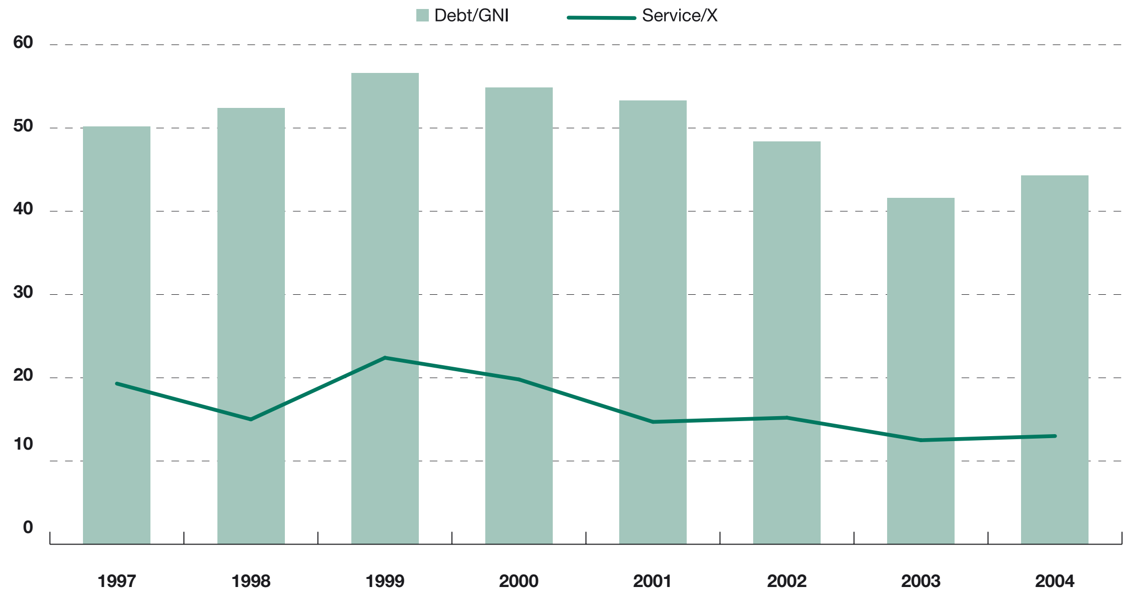
The deficit in the goods, services and income balance grew by 12 billion CFA francs in 2005, to 409 billion CFA francs (14 per cent of GDP). The large current account deficit, of about 10 per cent of GDP, or 342 billion CFA francs, (excluding external budgetary support), makes the country highly dependent on external funding. Net public transfers and drawings on government bodies funded 257 billion CFA francs of the deficit. Debt relief under the Enhanced HIPC Initiative, for which the country reached completion point in May 2002, provided 40 billion CFA francs to fund the estimated 15 billion deficit in the 2005 overall balance. The ratio of external debt to GDP stabilised at 34.8 per cent in 2005 and debt service was 9.1 per cent of exports. These ratios should improve further when multilateral debt relief decided by the G8 nations in 2005 becomes effective.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-11.9	-9.3	-8.4	-8.8	-10.2	-10.7	-11.1
Exports of goods (f.o.b.)	9.7	7.6	7.6	9.1	9.7	10.1	9.8
Imports of goods (f.o.b.)	-21.5	-16.9	-16.0	-17.9	-19.9	-20.7	-20.9
Services	-4.7	-3.2	-4.4	-4.0			
Factor income	-0.6	-0.7	-0.6	-0.6			
Current transfers	6.9	4.0	4.9	3.8			
Current account balance	-10.2	-9.2	-8.4	-9.6			

Source: INSD data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

Structural Issues

Recent Developments

Burkina Faso reformed its labour law in September 2004 and is waiting for Ohada (the African business law harmonisation organisation) to complete its work. The new law bans sympathy strikes (confining strikes to issues within the workers' own firms), calculates paid holidays according to the calendar instead of working days (which limits paid holidays to 30 days) and requires a binding order to enforce decisions (which limits the power of bailiffs and increases that of judges in business disputes). The law on trainee and apprenticeship contracts was strengthened and overtime pay officially increased. A significant step in 2005 was creation of a one-stop shop to streamline and speed up formalities for setting up and expanding businesses.

But flaws remain in many areas of business regulation, such as taxation and customs procedures. Firms also complain about the government's tardy payment for public works projects it contracts out. The WAEMU's legal framework, which is supposed to encourage sub-regional economic activity, is being implemented only slowly. The right of establishment is not effective and rules for drawing up consolidated accounts of firms operating in several countries do not exist. Problems with enforcing the new mining law are hampering firms in that sector.

The country pays dearly for electricity shortages and expensive oil which affect the entire population and the productive sector. High electricity rates undermine industrial growth and the hot season brings frequent power cuts, especially in the capital. The biggest of several projects to increase supply is one to link Ouagadougou with Bobo-Dioulasso, the funding of which was completed by a French Development Agency (AFD) loan of more than 10 billion CFA francs in April 2005. The 50 billion-plus CFA francs scheme is co-funded by the AFD, the European Investment Bank, the World Bank, the Nordic Funds and the Danish aid agency. The contracts are being tendered and work should start in June 2006 with the new link fully ready by the end of 2007. The project will extend the existing power line between Ferkessedougou (Côte d'Ivoire) and Bobo-Dioulasso. As well as supplying the capital, the new high-tension line will provide cheaper current to the entire region between the two cities and meet the capital's needs until 2012, when another major project will take over to satisfy the growing demand. This will be connecting Ouagadougou to the Ghanaian national grid by a high-tension line to Bolgatanga (Ghana). Sonabel has very few paying customers and only 14 per cent of households are officially connected.

Stepping up electricity imports will allow Sonabel to cut its thermal production. Imports of fuel-oil and diesel (more than 100 000 tonnes in 2005) will be reduced by three-quarters in 2008 (to just over 25 000 tonnes) because of the new power line. The government presently subsidises half of Sonabel's oil purchases but wants to cap this, so the firm, which is at the mercy of world oil prices, will need to cut its own production.

The economy is handicapped by the rise in oil prices, and pump prices rose an average 20 per cent between January and November 2005 (17 per cent for super, 27 per cent for diesel and 29 per cent for two-stroke), reaching a peak in September (super at 673 CFA francs/litre in Ouagadougou and diesel at 599 CFA francs). Prices are fixed monthly based on an average of prices over the previous 25 days, which has softened the impact and avoided passing on the entire oil price rise to consumers. Without this arrangement, super might have sometimes cost more than 715 CFA francs. Sonabhy's finances are affected but the company gets by with bank loans and uses its stocks to keep prices steady. It currently has 45 days of consumption (though sometimes only 30), while previously it had 60 to 70 days of stocks. Tax on oil products comprises VAT (18 per cent), customs duty and PPT and totals about 38 per cent of the pump price. The PPT is unlikely to be reduced as it raises substantial revenue for the government (17 billion CFA francs in the first nine months of 2005).

High fuel prices keep transport costs high and reduce demand for it. Sales rose less than 2 per cent in 2005, to an estimated 460 000 cubic metres (450 000 cubic metres in 2004), while the economy as a whole grew much faster (5.4 per cent). Vehicle-owners are switching to diesel, which is still cheaper than super, mainly because it attracts lower tax. Diesel sales rose 5.8 per cent in 2005, while only a little over 1 per cent more super was sold. One beneficial side-effect is that Ouagadougou airport is once again more attractive for aircraft refuelling as the fixed costs of transporting the fuel to Ouagadougou are proportionally lower with higher world prices. Burkina Faso suffers less now from refuelling competition from Cotonou and Niamey airports and sales of Jet A1 by Ouagadougou airport were up 16 per cent in 2005.

Three big firms are being privatised – Onatel (telecommunications), Sonabel (electricity) and Sonabhy (oil products). Divestment of Onatel began in 2004 with tendering of 34 per cent of its capital and a management franchise, but this was unsuccessful. A new package was put together, this time of 51 per cent of its capital plus management. The remaining 49 per cent would be reserved for the government (23 per cent), the general public (20 per cent) and the firm's employees (6 per cent). The communications regulator, Artel, is drawing up the terms and conditions for future shareholders which will include public service obligations. Government revenue from Onatel's privatisation is expected to be 15 billion CFA francs in 2006. The mobile phone sector was opened up in 1999. The government monopoly of fixed lines ended on 31 December 2005, but there is some doubt about the need for a second fixed-line operation in view of the small size of the market.

Sonabel will be privatised in three stages. An entirely state-owned asset-holding company will be set up and then turned into a state-guaranteed private firm with most of its capital available for purchase by private investors. Finally, its management and energy operations will be transferred to this private firm. But the firm's accounts are still being audited. Privatisation of Sonabhy will be done slowly, starting with a minority share offering. Appointment of an independent regulatory body raises the question of whether it should supervise both oil products and electricity (and thus regulate the whole energy sector) or if the two sectors should be monitored separately, which seems to be the preferred solution. Whatever happens, the oil sector will have to be supervised and access to it limited in order to fight fraud, tax evasion, poor maintenance of fuel depots and lack of emergency stocks, all observable in countries where the sector is totally unregulated.

The banking sector is being reorganised and in 2005 three new banks joined the eight already operating. These were the Banque Atlantique (a subsidiary of the Banque Atlantique de Côte d'Ivoire), the Banque de l'habitat, which will start up in 2006, and the Banque de la solidarité du Burkina (BRS-B), which is linked to the BCEAO and opened in November 2005. The increased competition should benefit customers by reducing bank charges. The BRS-B, inspired by Tunisia's BRS and by Bangladesh's Grameen Bank, aims to serve individual customer projects and micro-enterprises and tap into the enormous number of applications that are overwhelming current micro-finance institutions. Its loan-monitoring and guarantee arrangements have been approved by the BCEAO and the government. The BRS-B is the first bank of its kind in the country and should boost income-generating activity and bank use: only 4 per cent of the population have access to banking services at present.

Transport Infrastructure

The transport sector is rapidly changing. The Ivorian crisis, which blocked the Bobo-Abidjan trade corridor, led to speedy reorganisation of routes and the flow of goods. The rapid adjustments surprised many who expected substantially more trade problems. The crisis showed the need for more energetic government policy on infrastructures and better organisation of transport operators. Infrastructure repairs should help the growth of industry and transport, reduce the cost of transporting goods and open up several economic areas that have suffered from the isolation arising from the closure of the Bobo-Abidjan route.

The country has 15 272 km of graded roads (6 697 km main roads, 3 581 km regional and 4 994 km provincial), of which 2 380 km are surfaced. There are also 46 000 km of rural tracks and 350 km of paved roads in the Ouagadougou and Bobo-Dioulasso conurbations.

Under the 1992-2000 transport sector adjustment programme (Pasec-T), the government largely withdrew from all freight-handling, which involved waves of privatisation, including maintenance of all graded roads. Then came major investment to open up the country to the outside world and the main trade routes to neighbouring countries were surfaced. Good roads to Côte d'Ivoire (Ouaga-Bobo-Banfora), to Togo (Ouaga-Koupela) and to Benin (Ouaga-Koupela-Fada-Pama) gave Burkinabe businesses better access to sea-ports.

These road network improvements were vital because of the Ivorian crisis which, by closing the Ouaga-Abidjan railway, forced transporters to use the roads much more. In 2002, 37 per cent of all goods crossing the border to maritime countries went by road (296 530 tonnes). In 2003, when the railway was closed down for nine months, this figure rose to 88 per cent (910 000 tonnes) and was 80 per cent in 2004. Goods traffic has tripled across the Togolese border (from 157 209 tonnes in 2002 to 516 861 in 2003) and that to Ghana has risen from 107 906 tonnes in 2002 to 300 640 in 2003.

The rapid deterioration of these now heavily-used roads calls for new efforts by the government and its partners. Since 2000, a second transport sector programme (PST-II) has earmarked more than 783 billion CFA francs for roads, mainly their upkeep (40 billion CFA francs in 2005, supplied entirely by the government). Maintenance and improvement of surfaced roads cost more than 37 billion CFA francs over 760 km in 2005. The EU is the specialist funding agency for this and is paying for more than three-quarters of the programme. The main roads involved are Ouaga-Bobo and Ouaga-Koupela (to Niger, Togo and Benin). Strengthening surfaced roads (104 billion CFA francs for a 507 km stretch) is two-thirds funded by the EU. Periodic upkeep and improvement of unsurfaced roads involves 6 472 km, of which 2 013 km had been done by the end of 2005, with 4 459 km still in progress. The main funders of this part of PST-II are the World Bank, the African Development Bank and the EU. Surfacing of new roads is also planned. The stretches Ouaga-Pô (Ghana), Ouaga-Diebougou-Gaoua-Kampti (Côte d'Ivoire) and Ouaga-Nazinon have been done (406 km) at a cost of 48 billion CFA francs and will speed up traffic to Ghana and Côte d'Ivoire. Surfacing of the stretches Ouagadougou-Leo (Ghana), Bobo-Dedougou, Kaya-Dori and Ouaga-Kongoussi is also under way, costing 73.5 billion CFA francs for 566 km. This is mostly funded by Arab sources, such as Kuwait's KFDEA (22 per cent), the Arab Bank for Economic Development in Africa (BADEA) (18 per cent) and the Islamic Development Bank (IDB) (17 per cent). An extra 11 910 km of new rural tracks are planned, 6 777 km of them funded largely by the World Bank and the special HIPC Initiative fund, to open up some rural areas and cotton-producing regions. A motorway between Ouaga and Bobo is also planned to decongest the present road and halt its rapid deterioration, caused by its use by more than 2 000 vehicles a day (2 800 on the Ouaga-Sakoinse stretch), but the project is only at the feasibility-study stage.

Passenger road transport has grown strongly in recent years. A road safety campaign helped to improve the condition of vehicles, which now include full-sized buses as well as the traditional covered pick-up trucks. A very successful project to sell new duty-free vehicles was launched by the government in 2003. Passenger transport now needs to be regulated to include the many small non-professional individual carriers. A set of rules should be ready at the end of 2006.

Road freight haulage has the same problem of non-professional operators, plus that represented by dilapidated and unsafe trucks. This has been aggravated by the Ivorian crisis, which led individuals and small traders to acquire their own vehicles, bypassing the haulage firms. The perilous state of Burkinabe trucks also slows sub-regional integration, which requires a degree of common regulation. About three-quarters of Burkinabe trucks are reckoned to violate safety standards of age, maintenance and load weight.

Urban transport is mainly individual. The bus firm SOTRACO (successor to Régie X9) has run a small bus network (now 60 vehicles) in Ougadougou since 2003 but most people get around in private cars and on bicycles and motorcycles. Taxis are plentiful but drivers are still little regulated and professional standards are low. The government wants to regulate the profession and monitor the age of imported vehicles to curb an influx of bad-condition second-hand vehicles from Europe.

Rail has historically been the chief way to transport goods, via the Ouagadougou-Abidjan line, which was jointly run by Burkina Faso and Côte d'Ivoire through the Régie Abidjan Niger (RAN), which was split into two national companies for a while and then handed over to a private firm, Sitarail. This saw a massive increase in goods traffic but less passenger traffic, which was not profitable because of the age of the line and slowness of the journey. The Ivorian crisis was a disaster for the railway. The border was closed from 19 September 2002 to 10 September 2003 and Sitarail was only allowed to resume operating inside Côte d'Ivoire in May 2003. Goods traffic fell 80 per cent between 2002 and 2003, from 866 000 tonnes to under 180 000. Reopening of the line enabled merchandise stuck in the port of Abidjan since the beginning of the crisis to be brought out at the end of 2003, but the second political crisis, at the end of

2004, again hit rail traffic, in November and December that year and in the first quarter of 2005. Sofitex, which had used the line to export cotton, switched permanently to road transport and shipment out of Ghanaian and especially Togolese ports. Trains are running again, however, and have no special problems on the run to Abidjan. Sonabhy is using them to bring in some of its oil imports. But the Ivorian situation continues to be unstable and insurance of goods is hard to come by. Passenger traffic has also resumed but now with only three trains a week.

A new Ouagadougou airport is planned to replace the present one, which is too small for the 220 000 passengers it handles each year and is an annoyance and danger to thousands of people through being situated right in the city. The new one, costing more than 80 billion CFA francs and scheduled to open in 2015, will be 35 km northeast of the city and able to process 700 000 passengers a year

Political and Social Context

President Blaise Compaore, in power since 1987, was re-elected in November 2005 with 80.3 per cent of the vote in the first round. The election was peaceful, with no serious irregularities reported after nearly two years of preparation by the independent national elections commission (Ceni), chaired by civil society representative Judge Moussa Michel Tapsoba. Ceni computerised electoral records, enabling nearly 4 million out of an estimated 6 million-strong electorate to register. Introduction of a single ballot paper reduced the cost of the election and chances of fraud. Thirteen candidates ran and Compaore's candidacy was constitutionally challenged. Article 37 of the national constitution was changed on 11 April 2000 to reduce the presidential term from seven to five years and ban more than one re-election (before, it had been unrestricted). Compaore had served several terms and his opponents asked the constitutional council to ban him from standing again. But the council refused, saying the amended article was not retroactive, so the incumbent president could stand for re-election again.

Voter turnout was 57.5 per cent, according to Ceni, much higher that at previous presidential polls, because the election was well-organised and because of vigorous campaigning by opposition parties which, for the first time, did not boycott the election. Compaore's landslide win was partly because the opposition did not unite to offer a credible alternative. The main opposition party, the Alliance for Democracy and Federation–Assembly for African Democracy (ADF-RDA), headed by opposition leader Gilbert Ouedraogo, supported Compaore, as did most political parties and groupings. Compaore's Congress for Democracy and Progress (CDP) party also had much more money than the other parties and campaigned energetically. The party had a nationwide network of support groups and the president was backed by fellow heads of state in the sub-region.

The government's anti-corruption co-ordination body, HACLC, began work in 2003 but has little money and insufficient staff. The government said it wanted to fight corruption seriously but then did not follow all the recommendations of anti-corruption bodies, such as HACLC, the national ethics committee and the national audit court. HACLC's most recent report, in March 2005, has been kept secret despite earlier government promises to release it. The justice system has also been criticised by observers as very corrupt and for only rarely challenging high-level embezzlement of public funds, even in virtually-acknowledged cases. On the eve of the presidential election, the government strongly suggested it would crack down on corruption, but this declared intent seemed to go no further than a few symbolic cases pursued partly for reasons of the CDP's internal politics. The important work of monitoring public finances, by the national audit court set up in 2002, has helped to clarify management of the national budget.

Burkina Faso is one of the world's poorest countries and ranked 175th out of 177 countries on the 2005 UN Human Development Index, based on the situation in 2003. The National Statistics and Demography Institute (INSD) said the poverty rate in 2004 was 46 per cent and predicted a slight fall in 2005 to just over 43 per cent. This showed the economy's resistance to the weather problems (poor rainfall) and external shocks (the Ivorian crisis) that pushed up prices of staples and cut remittances to mainly rural households by citizens living and working in Côte d'Ivoire. Poverty was unequally distributed in 2005, with 18 per cent of urban dwellers considered poor by the INSD and 48 per cent in the countryside. The PAP reckons that 7 per cent economic growth is needed significantly to reduce poverty. The goal is to bring it down to below 35 per cent by 2015.

The government has made major efforts to improve health and education. The capacity to absorb aid and funds released under the HIPC Initiative is satisfactory and the rate of project completion is rising. But health indicators are still worrying. The PAP has fixed eight goals to improve health – boost infrastructure, set care and medicine standards, fight infectious diseases, reduce HIV/AIDS prevalence and look after patients, train more health workers, improve access to healthcare, increase coverage of costs and boost institutional capacity at the health ministry. A nationwide survey in 2004 put the HIV/AIDS infection rate at 1.8 per cent, the result of an active prevention policy.

The sustained effort to upgrade education, with 40 billion CFA francs invested in the sector in 2005 (about 14 per cent of total government spending), has significantly boosted primary enrolment, from 47.5 per cent in 2002 to 56.8 per cent in 2004, and it reached the 59 per cent target for 2005. Enrolment of girls has also risen. But educational conditions are still unsatisfactory and teaching is often very difficult, with an average of 52 pupils per class and a high 15 per cent without desks. The primary school graduation rate is still low, at 33 per cent for boys and under 30 per cent for girls. Repeating years is common and what to do on primary graduation is a serious problem, making the purpose of such education questionable. About 10 per cent of the school-age population is in secondary education and increasing by about one percentage point a year. Vocational training is virtually non-existent and both the children and the economy suffer from its absence.

Literacy is growing but is still very low. The target rate for the adult population was only 30 per cent in 2005. Providing more educational opportunity, by building and equipping more than 3 000 classrooms in 2005 and nearly 4 000 in 2006, is part of the PAP. Improving the primary curriculum through better teacher training and more effective assessment should increase the average number of years children spend at school. Support for adult literacy efforts is also a key goal of the poverty reduction strategy framework (PRSF).

Cameroon

key figures

• Land area, thousands of km²	475
• Population, thousands (2005)	16 322
• GDP per capita, $ PPP valuation (2005)	2 585
• Life expectancy (2000-2005)	45.8
• Illiteracy rate (2005)	23.1

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/081382055510

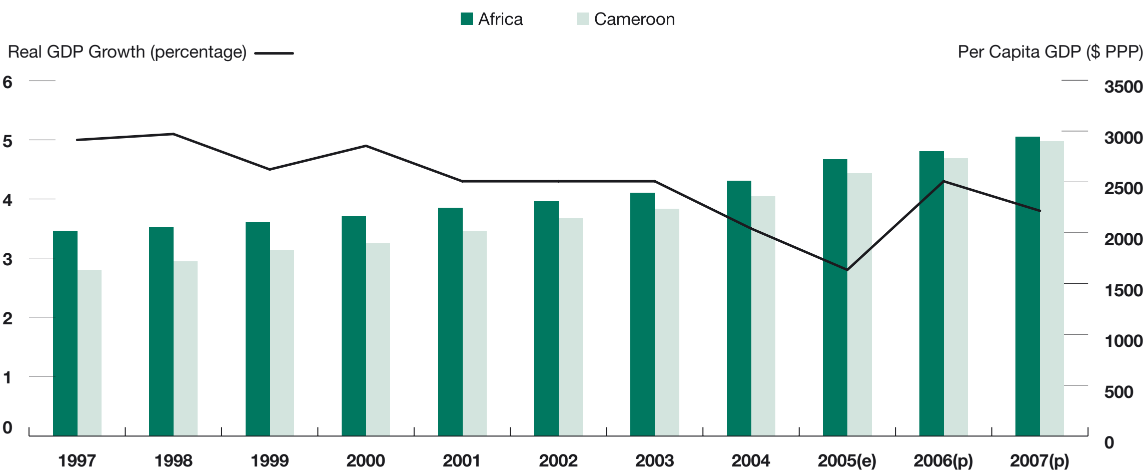
Cameroon

THE ECONOMY RECORDED MODEST growth of about 2.8 per cent of GDP in 2005 (down from 3.5 per cent in 2004) and budget austerity prevailed after the government's financial excesses in 2004, which had again prevented the economy reaching completion point. The 2004 indiscipline highlighted the flaws in the country's governance and showed that domestic politics could call into question the government's economic promises. The indifferent 2005 results also showed the strengths and weaknesses of Cameroon's growth. Despite a vigorous private sector, growth was not universal but driven by a few export sectors and strong consumer demand. In many ways 2006 will be a turning-point. Completion point may now be reached, which has involved installing a government more friendly to business and inspiring greater confidence among development partners, with a clear road-map. The final stage of the Heavily Indebted Poor Countries (HIPC) Initiative qualification process will also arrive. The economy is expected to grow 4.3 per cent in 2006.

The government says it is determined to reach completion point and gain access to its advantages. Getting this budgetary leeway should revive public investment which will stimulate structural projects such as boosting national aluminium production capacity. After 20 years of disorganised structural adjustment and deteriorating infrastructure, completion point is seen as the start of a new era for the country, when its economic potential can be realised. But the country's poor governance raises doubts. It is an area of huge challenge, with the need to tackle corruption, make administration more efficient and ensure good quality government policies over the long term.

The country is expected to reach its HIPC completion point in 2006.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

The primary sector accounted for about 21 per cent of GDP in 2004 and grew slightly less in 2005 (3.9 per cent, compared with 4.2 per cent in 2004). Cash crops are a major source of growth. Food crops also well developed and have a thriving sub-regional market, especially in Nigeria, Gabon and Equatorial

Guinea. World prices for the country's cash crops were quite good in 2005, especially for coffee, cocoa, bananas, rubber and wood. Most cash crops did well. Cocoa production was up 7 per cent and industrial palm oil 4 per cent. Rubber (up 4 per cent) benefited from the high world price of synthetic rubber linked to high oil prices which turned customers towards natural rubber. Good prices paid to cotton farmers by the government and increased yields boosted cotton production 26 per cent to 120 000 tonnes in 2005. With world demand stagnant, banana exports were stable at around 278 000 tonnes. Coffee production (mainly robusta) fell 8 per cent.

Cameroon has major agricultural potential, especially for cash crops, but substantial investment and reforms are needed to exploit it further. Rubber cultivation suffers from the small sizes of farms and cocoa has an ageing labour force and production facilities. The best hope is perhaps banana exports, which have received substantial investment from the French Compagnie fruitière de Marseille and the CDC group which makes the fruit internationally competitive. But with worldwide trade preferences crumbling, especially privileged access to the European Union (EU) market, further productivity and phytosanitary efforts must be made to stay competitive.

Cattle-raising, which provides a direct living for nearly 62 500 households, also benefits from a thriving sub-regional market. But prices are still too high, especially for local consumers, and the sector needs more modern slaughtering and distribution facilities.

The timber industry is an important part of the economy (15 per cent of exports in 2004[1]). Strong growth of 15.8 per cent in 2004 was followed by a significant slowdown to only 2.1 per cent in 2005, partly because of the government's reorganisation of the sector. Some forestry firms lost their licences for tax fraud and illegal felling. But the sector's prospects are quite good in coming years. Fifteen new forestry concessions were issued in the second half of 2005. New felling could result from successful cobalt mining in the forest areas and the opening of the Lom Pangar dam in 2009/10.

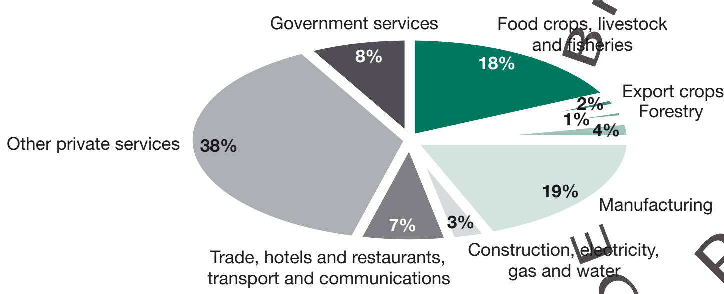
The secondary sector – 26 per cent of GDP (including oil) – was the main drag on growth in 2005, declining about 0.8 per cent after very modest growth of 0.5 per cent in 2004.

Oil production is falling but is still a key economic sector along with cash crops and wood. It was 4 per cent of GDP in 2004 and production in 2005 was reckoned as 30.1 million barrels, a drop of 8 per cent (from 32.7 million) from 2004 that affected GDP. This natural decline in output is about 20 per cent a year but major investment in residual recovery is postponing the estimated total depletion date of 2017 and a 6 per cent production recovery is expected in 2006. But the country must come to terms with the fact that its oil deposits will run out. Metals and natural gas offer more hope. A fairly large gas field has been found at Sanaga that could supply the planned thermal power plant at Kribi. Two bauxite exploration permits have been issued to the Hydromine Company in the Minim Martap and Ngaoundal areas. These deposits could supply the Alucam smelter, especially after it has increased its capacity, and could also be exported if a deep-water port were built at Kribi and the local railway adapted to carry it. The Geovic Company may begin cobalt mining in the forest area at the end of 2006, though no firm plans yet exist.

The manufacturing sector grew about 4.7 per cent in 2005 (down from 5.6 per cent in 2004) but its components performed variously. Aluminium output was expected to increase 6 per cent, with production of nearly 90 000 tonnes, buoyed by good world prices and better (though still inadequate) electricity supply. The agro-food sector was badly hit by an estimated 4.7 per cent decline in household consumption. Beverages fell 14.5 per cent in the first half of the year after a drop in sales, aggravated by imposition of excise taxes, which in turn badly affected the local sugar industry. Cement (98 per cent of it for housing

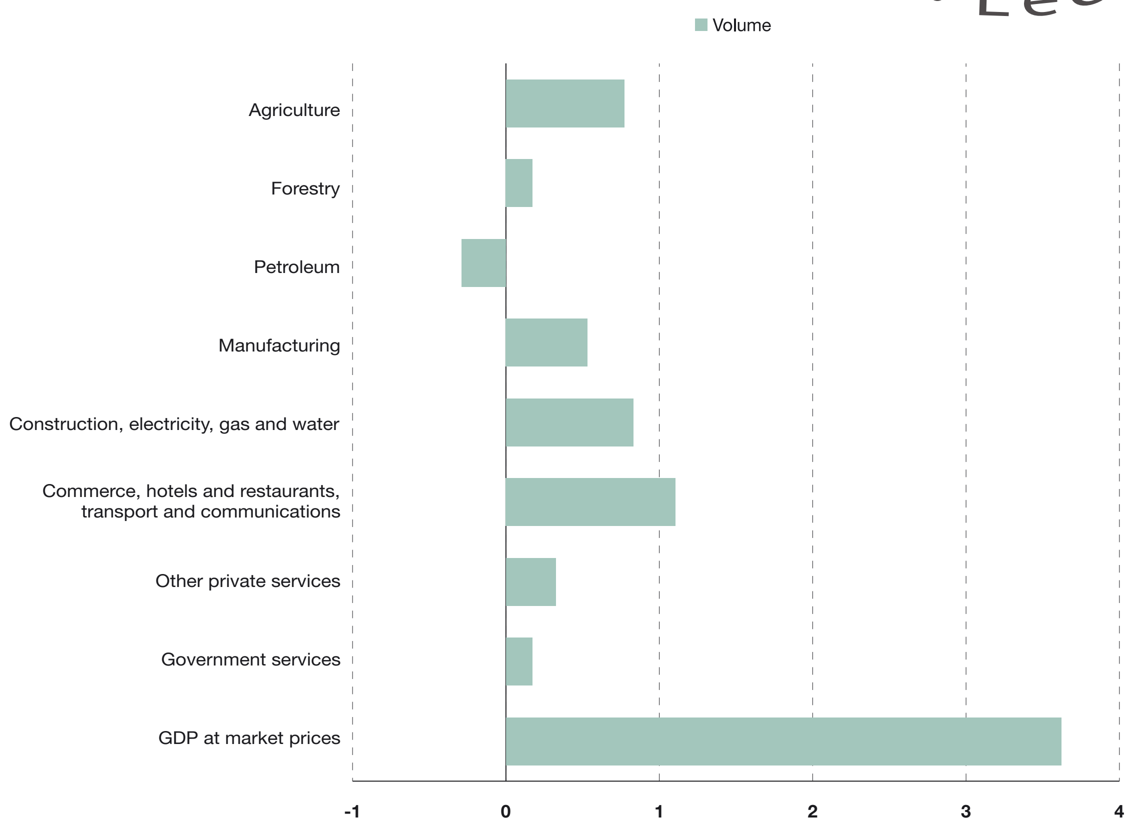
1. This includes unprocessed logs and sawn logs.

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

construction) was also depressed by poor household demand and declined 2 per cent, a significant departure from its average 8 per cent annual growth over the past decade.

The manufacturing sector, though based on a robust private sector, has many structural problems. Electricity is expensive and in short supply and the sector was weighed down in 2004 by debts owed to it by the government. Local industries also have to face very aggressive competition from Asia, government failure to stop smuggling and thus unfair competition from the informal sector. Local firms in agro-food (Sosucam), textiles (Sicam), plastics (Plasticam), tobacco and batteries (Pilcam) are in great difficulty.

Electricity output was up 3.3 per cent in 2005, however, as a result of higher rainfall and the opening of thermal plants at Limbe and Logbaba (Douala). Industrial demand, meanwhile, declined sharply.

Overall growth in 2005 was largely driven by the still very vigorous services sector, which grew 4.7 per cent (5.4 per cent in 2004) and contributes nearly 45 per cent of GDP. Telecommunications recorded a 51.6 per cent increase in subscribers, especially for mobile phones (up by 53.7 per cent), partly as a result of extended coverage by mobile phone operators and Camtel. But telecommunications infrastructure is still not good enough to support the kind of quality call-centres Senegal has built up. Projects have been launched to modernise infrastructure, including a fibre-optic network along the Chad-Cameroon pipeline which will be connected to the undersea SAT3 international cable off Douala.

The transport sector had a mixed year, with port traffic up 4.6 per cent and rail up 5.1 per cent (in Camrail's turnover) but with a 22.8 per cent drop in air passenger traffic due to the problems of the national airline Camair.

Cameroon has major tourist potential but infrastructure needs upgrading and expanding. The tourist law is to be updated and a sector strategy is being drawn up. Overnight hotel stays were down 10 per cent in first-half 2005 and employee numbers fell by 6 per cent. Trade and distribution turnover slumped 14 per cent as a result of diminished household purchasing power and competition from Asia, including in the informal sector.

The economy's growth is traditionally driven by domestic demand, although the country has many good raw material exports. This dual aspect of its growth explains why the 2.8 per cent growth in 2005 was indifferent, though not a disaster. Very slack domestic conditions were a major drag on growth. Domestic demand, which is partly driven by the government, suffered from the budget rigour imposed in an effort to reach completion point in 2006 and only rose an estimated 3.8 per cent in real terms in 2005. An increased tax burden, up from 9.3 per cent of GDP (2004) to 10.4 per cent in 2005, hit private consumption (which only rose 1.7 per cent by volume) in particular. Government investment was sharply up, by 61 per cent in volume, due to recovery from the fall in 2004 and to major public works (such as road-surfacing), while private investment (up 11 per cent by volume) remained focused on oil, railways, telephones and construction (notably the oil depot at Limbe). Net external demand boosted growth in 2005, despite 0.9 per cent fewer exports by volume mainly due to a drop in oil exports. The contribution of net external demand partly made up for the small rise in private consumption, while oil revenue, helped by good world prices, partly funded public demand, which rose 8.7 per cent in real terms.

Reaching completion point, which seems possible in 2006, should further boost public investment (67 per cent) and consequently private investment (11 per cent) that year. Construction of the Lom Pangar dam (between 2007 and 2010) could help expand the Alucam smelter's capacity (from 100 000 to

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**15.0**	**19.8**	**18.1**	**18.3**	**20.8**	**24.3**	**24.6**
Public	2.4	2.3	2.3	2.4	3.7	6.0	5.3
Private	12.6	17.5	15.8	15.9	17.1	18.3	19.3
Consumption	**81.0**	**81.0**	**82.2**	**80.6**	**77.8**	**74.3**	**75.6**
Public	9.0	10.2	10.0	10.2	9.1	9.2	9.7
Private	72.0	70.8	72.2	70.4	68.7	65.0	66.0
External sector	**4.0**	**-0.8**	**-0.3**	**1.1**	**1.3**	**1.4**	**-0.2**
Exports	23.3	19.9	20.2	19.7	21.1	21.4	19.8
Imports	-19.3	-20.7	-20.5	-18.6	-19.8	-20.0	-20.0

Source: Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors' calculations.

260 000 tonnes) and the firm's building of a $900 million hydroelectric power plant at Nachtigal[2]. Other major investments are expected, such as the building of an 86 billion CFA francs thermal power plant at Kribi, cobalt processing plant (by Geovic), a new cement plant at Limbe and major road projects. Paying off arrears of the public domestic debt and recruiting new public sector staff in priority sectors could boost household purchasing power and ease the tight financial situation of companies. But any effect on household consumption would not be felt until 2007. A one-off increase in oil production is expected in 2006, which should result in a 1.9 per cent volume increase in exports and a positive contribution of net external demand to 2006 growth, which is expected to be about 4.3 per cent.

Macroeconomic Policies

Fiscal Policy

The country's finances have been fairly chaotic for the past five years. Cameroon was declared eligible in October 2000 for the HIPC Initiative and completion point was set for March 2003, only to be postponed when the time arrived and the 2000-03 three-year agreement with the IMF suspended. The government began a major effort in early 2005 to normalise relations with its funding sources, especially the IMF, and thus complete the HIPC process. It signed a monitoring programme with the IMF in early 2005, followed by a poverty reduction and growth facility (PRGF) for 2005-08 with a new completion point target of first-half 2006. The first review of the programme in September 2005 showed progress had been made, especially in respect of the national budget. Cameroon also met all the CEMAC (Central African Economic and Monetary Community) convergence criteria in 2004, except that relating to the accumulation of debt payment arrears. All criteria should be met in 2005.

Extensive budgetary excesses occurred in 2004 as elections neared. The budget deficit had reached 0.6 per cent of GDP while the IMF agreement provided for a 2.2 per cent surplus. The government was behind in repaying its domestic and external debt (about 13 billion CFA francs) to its suppliers, mainly in construction, and reimbursing VAT to forestry exporters and others. The HIPC special account was also in arrears (79.9 billion CFA francs) at the end of December 2004.

After this indiscipline, an effort was made to restore order in public accounts in 2005. Current expenditure was held to the level agreed in the monitoring arrangement, especially the government wage bill, which was reduced 5.9 per cent from 2004. These changes gave the government enough room to increase capital spending 65 per cent, to 260 billion CFA francs (3 per cent of GDP, up from 160 billion in 2004), though this was below the target of 285 billion.

Government revenue also greatly increased, by 19.8 per cent, as a result of high oil export earnings (394 billion CFA francs, compared with 276 billion budgeted for) but also of higher non-oil earnings (1 108 billion CFA francs instead of a predicted 1 057 billion). More company tax was collected, especially from services (telephone firms), and government revenues also rose from higher taxes and better collection. This budgetary discipline enabled the government to pay off by the end of October 2005 43.4 billion CFA francs of its arrears to the HIPC account, using some of the oil income. Regular payments to it were made on time in 2005.

Oil revenues have also been used to service domestic debt and pay off some of the 2004 arrears. The government did a new audit in October 2005 of this debt, estimated at 1 500 billion CFA francs at the end of 2004. A repayment plan has been drawn up.

The 2006 budget, based on an expected oil price of $48 a barrel and 4.2 per cent GDP growth, should enable continued efforts at reform so as to reach completion point. The anticipated rise in oil production will bring in 30.7 per cent more revenue from that

2. A letter of intent was signed by the government and the Alcan group on 26 October 2005.

source and non-oil income is expected to rise 7.5 per cent. A total 13.7 per cent increase in government revenue is expected. Current expenditure should rise moderately (8.6 per cent), which is stable in relation to GDP (12.4 per cent). The budget includes some leeway through money from the HIPC fund if completion point is reached[3]. So capital spending will be much higher (74 per cent) and also in relation to GDP (4.8 per cent of GDP, up from 1.9 per cent in 2004). The 2006 budget indicates the government's firm intention in coming years to make substantial public investment, especially in sectors very directly linked to production capacity.

Despite these efforts, the country's public finances have persistent structural weaknesses. They remain very dependent on oil revenue (26.2 per cent of total revenue, except grants, in 2005) at a time when production in falling. The tax burden meanwhile is only 10.4 per cent, mainly because of the narrow tax base, largely the result of the large informal sector. Economic partnership agreements (EPAs) with the EU in 2008 will also reduce customs revenue. Current expenditure is a huge 80 per cent of total government spending, with the wage bill alone 31 per cent of this total in 2005. Capital expenditure (only 20 per cent of total spending) is never entirely disbursed, showing major absorption problems that could hamper implementation of future investment plans. So-called "sovereignty" expenditure is unquestionably excessive (35 per cent of total spending, including 25 per cent on defence), especially compared to outlays on education (29 per cent), health (5 per cent) and infrastructure (10 per cent).

However progress has been made, especially in monitoring spending and transparency of public accounts. The 2006 budget was presented to parliament before the start of the budget session, enabling thorough examination of it, something new in Cameroon. The draft budget execution law for 2004 was also presented to parliament at the end of 2005. An action plan is being drawn up to implement the Extractive Industries Transparency Initiative (EITI) and the government has promised not to use surplus oil revenue to finance recurrent spending. An integrated budget management system was introduced in January 2005 that provides running accounts, including monthly updates on budget execution that compare commitments and disbursements. Efforts have also been made to improve execution of capital spending through a medium-term expenditure framework (MTEF) in construction, health, education and rural affairs. But the greatest progress has been in incorporating HIPC spending into the

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**15.4**	**16.8**	**16.3**	**15.3**	**17.3**	**18.2**	**17.2**
Tax revenue	9.0	9.8	10.0	9.3	10.4	11.0	11.0
Oil revenue	0.0	4.9	4.1	3.9	4.4	5.4	4.3
Total expenditure and net lending[a]	**14.7**	**15.7**	**15.4**	**15.9**	**15.3**	**17.2**	**16.9**
Current expenditure	13.0	13.3	13.3	14.0	12.3	12.4	12.7
Excluding interest	*8.8*	*10.7*	*11.0*	*12.1*	*10.7*	*10.9*	*11.5*
Wages and salaries	4.6	5.3	5.3	5.4	4.8	4.6	4.7
Interest	4.2	2.6	2.3	2.0	1.6	1.4	1.2
Capital expenditure	1.7	2.3	2.1	1.9	3.0	4.8	4.2
Primary balance	**4.9**	**3.8**	**3.2**	**1.3**	**3.6**	**2.5**	**1.5**
Overall balance	**0.7**	**1.1**	**0.9**	**-0.6**	**2.0**	**1.0**	**0.3**

a. Only major items are reported.
Source: IMF and Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors' calculations.

3. HIPC funds available for investment should be 90 billion CFA francs in 2006, 80 billion in 2007 and 69 billion in 2008, including respectively 39, 49 and 56 billion under a C2D (debt relief and development contract) agreement with France.

budget. The advisory committee of funders which monitors HIPC spending had opposed a broken-down allocation of HIPC money in the budget (and thus without its prior agreement), requiring it to be discussed with the committee after the budget was approved, after which the government would decree its sector allocation. This process tended to slow down disbursement of HIPC funds. To solve the problem, the government and the committee agreed in March 2005 on a list of projects, costing 450 billion CFA francs that could be paid for out of the HIPC account. These projects can now be budgetised upstream, and this was done in the 2006 budget.

Monetary Policy

The CFA franc is pegged to the euro and so Cameroon's monetary policy, which is in the hands of the Bank of Central African States (BEAC), depends largely on eurozone policy. The BEAC lowered its intervention rates by 25 basis points in September 2005. At the end of the year, the standard tender rate was 5.5 per cent and the repo rate 7.25 per cent. The final household consumption expenditure price index should be about 1.8 per cent in 2005, despite fairly big increases in so-called "controlled" items (such as electricity and oil) of around 7 per cent. Cameroon does not do any refining, so the world price of refined oil was partly (and with a delay) passed on to the pump price and domestic gas was also more expensive. The pump price rose 16 CFA francs in August 2005 and then 4 CFA francs a month between October and December. This in turn significantly pushed up the price of transport, and (mainly for tax reasons) prices of tobacco and beverages rose. However these increases were broadly offset by lower prices for other items.

External Position

The merchandise trade balance was in surplus in 2003 (0.8 per cent of GDP) and 2004 (1.7 per cent). First-half 2005 results suggested this would continue and reach about 2.2 per cent for the whole year despite a 30 per cent drop in volume exports of oil. But this fall was more than offset by the rise in world prices, so that oil exports by value rose 4.3 per cent in first-half 2005 year-on-year. Value exports of aluminium rose 22.4 per cent over the same period (and 8.7 per cent by volume), cocoa by 1.3 per cent and sawn logs by 7.4 per cent. Coffee exports slumped 21 per cent by value and cotton 45.3 per cent (as a result of smaller volume and also lower world prices).

Cameroon is fortunate to have a fairly strong and diversified export sector, which in 2004 included oil (40 per cent of the total), raw cocoa (9 per cent), raw cotton (5.8 per cent), aluminium (3.6 per cent), coffee (3 per cent), bananas (3 per cent) and, since quite recently, sawn logs (14 per cent) and wood products (17.6 per cent). But the export sector is still very dependent on raw materials, some of which (especially cotton) are having problems or are experiencing falling output (oil). The country is also at the mercy of volatile world prices[4] and very dependent, too, on imports of final consumption goods, semi-finished products and machinery.

Cameroon's main trade partners remain the EU countries (56.6 per cent of exports and 42.8 per cent of imports in 2004), with which it has a trade surplus. China has become a fiercely competitive supplier and was in third place after France and Nigeria in 2004 (it was eighth in 2001). But it is not yet a major buyer of Cameroonian raw materials.

Cameroon trades little with other CEMAC countries (which bought 4 per cent of its exports and provided 3.5 per cent of imports in 2004), illustrating the difficulty of regional integration. Yet it is to be hoped this will not hinder negotiations for an EPA between the EU and CEMAC. The second ("regional") phase of these talks was due to start in January 2006, aiming to come up with a full draft agreement by the end of 2007. Impact studies are still being done, especially to measure the consequences of an agreement for Cameroon.

The country has a current account structural deficit (about 1 per cent of GDP in 2004) mainly due

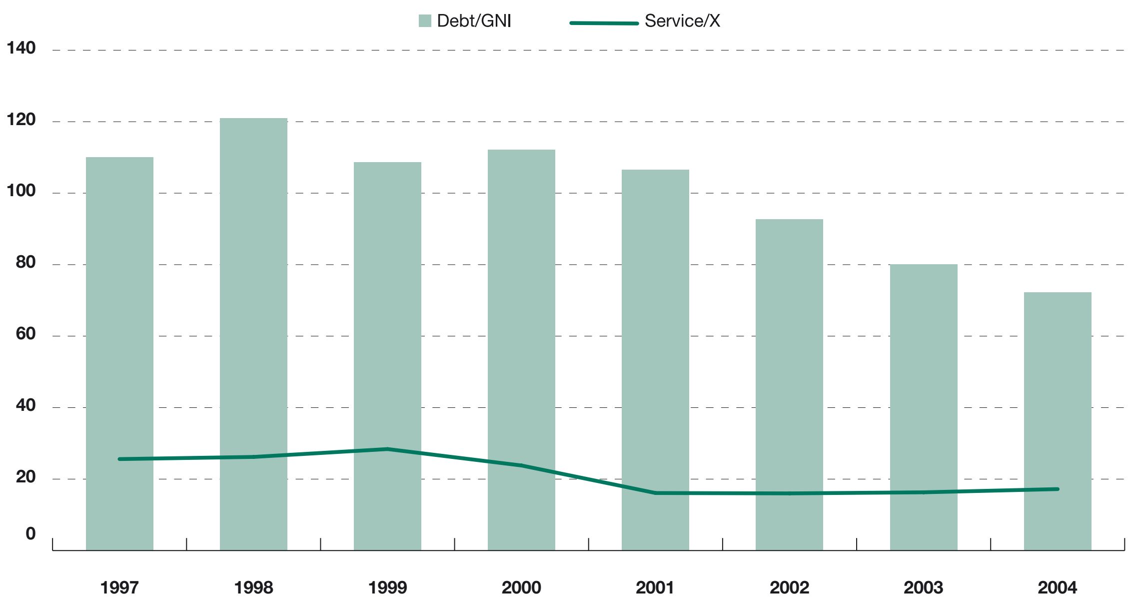
4. These prices do not always move the same way, which is fortunate as Cameroon has a wide range of cash crops.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	5.1	0.7	1.7	1.8	2.2	2.3	0.7
Exports of goods (f.o.b.)	19.6	18.2	17.3	17.0	18.5	18.9	17.2
Imports of goods (f.o.b.)	-14.5	-17.5	-15.6	-15.2	-16.4	-16.6	-16.5
Services	-2.2	-2.1	-1.4	-1.1			
Factor income	-6.6	-6.2	-3.9	-2.5			
Current transfers	0.9	1.2	1.5	0.8			
Current account balance	**-2.8**	**-6.3**	**-2.1**	**-0.9**			

Source: BEAC and Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

to the balance of services and income. The need for external funding, after including public borrowing, was 197.1 billion CFA francs (about 2.5 per cent of GDP). It is more than met (since currency reserves grew by 87.2 billion CFA francs in 2004) by already-obtained external debt rescheduling and relief (271.6 billion CFA francs in 2004). Foreign direct investment remains small (153.7 billion CFA francs, or 1.8 per cent of GDP) and was only 1 per cent of all FDI flows to Africa in 2003, according to UNCTAD. But it still funds about a third of the current account deficit and may increase in coming years with projects such as those of Alucam, a subsidiary of the international firm Alcan.

The country's external debt ratio in June 1999 (at Net Present Value) was 288.6 per cent of exports (205 per cent after treatment under Paris Club Naples terms). In these conditions, extra relief through the HIPC Initiative, required to reduce the debt stock (at NPV) to 150 per cent of exports, was set at $2 000 million in nominal value. Most of this relief will be coming from the Paris Club countries. Apart from the treatment of stock under Naples terms (67 per cent reduction in NPV on debt before cut-off date), the Club will also cancel $860 million under the HIPC Initiative. Some funders have decided to go further than this, such as France, Cameroon's main aid provider, under its C2D arrangement (debt relief and development contract). At completion point, the stock of debt will be reduced to 53 per cent of exports. Cameroon wants to use this comfortable position to seek funding whose soft terms do not fit the requirements of the 2005 three-year agreement with the IMF. It wants more money to fund key economic structure projects. Requests for such exceptions will be made to the IMF.

Structural Issues

Recent Developments

The macroeconomic situation improved significantly in 2005, but progress was slow in solving structural problems such as privatisation, reducing production costs and creating a better business climate.

Privatisation did not advance much in 2005. The main state firms to be divested are SNEC (water), Camtel, Sodecoton, Camair and the CDC agro-industrial complex. SNEC will be disposed of through a leasing arrangement and takers were to be sought at a meeting of investors at the end of 2005. The firm will be split into an entirely state-owned asset-holding company and a mostly privately-run management firm. Camtel will be put out to tender in mid-2006 with 51 per cent of its shares on offer. Camtel's mobile phone licence will be divested at the same time as its fixed-line business in order to attract investors. The future of Sodecoton remains very unclear, in view of its difficulties because of very low world prices, but talks with the French firm Dagris are continuing. Privatisation of the CDC is set for 2007. Camair, which is in very bad financial state, could be split/wound up. Only its profitable part (maintenance) and its assets would be sold and the rest of the firm liquidated. The government was expected to announce a formal decision in January-February 2006.

The cost and quality of factors of production in Cameroon are key problems for local businesses, especially in respect of electricity. The national power company, AES-Sonel, has a franchise on generators that were expected to produce in 2005, after the opening of thermal plants in Limbe (85 MW) and Logbaba (13 MW), a total of 932 MW. Local businesses complain that power supplies are expensive and inadequate and the shortfall was estimated at 180 MW in 2004. The country has great hydroelectric potential which is poorly exploited. It is not sufficiently compensated for by adequate thermal capacity, which leaves the country at the mercy of the weather. The southern part of the national grid was badly hit in 2004 by drought in the Sanaga river valley, where the Songloulou (384 MW) and Edea (264 MW) plants produce 97 per cent of the country's hydroelectric output. The Sanaga River has great hydroelectric potential but the retention basins cannot regulate the river flow throughout the year. So the Songloulou and Edea plants had a combined production shortfall of about 100 MW in 2004. Power cuts were also frequent because of the ageing supply network, with 2 985 MW not distributed between January and October 2005 because of technical problems. Electricity is rationed but also expensive because AES-Sonel has to make frequent and substantial rate adjustments to fund modernisation of the supply and transport network as well as upgrading the Edea plant, at a total cost of 350 billion CFA francs between 2005 and 2010[5].

Major investment is planned over the next few years to relieve the energy shortages holding back the production sector, including projects such as expanding Alucam's capacity. The government is negotiating with development partners for a long-term energy plan that should be ready in 2006. The Lom Pangar dam, on the Sanaga River, is expected to be completed by 2010, with the help of funders, and thus control the river and bring the Songloulou and Edea plants up to capacity, enabling them to generate together an extra 120 MW. New hydroelectric plants may be built on the river, such as the 300 MW plant planned at Nachtigal by Alucam to supply power for its increased production capacity. The Lom Pangar project has been held up by environmental problems that seem on the way to being settled, but its funding is not yet guaranteed. A

5. The subsided AES-Sonel rate is 50 CFA francs per KW/h, but SMEs sometimes have to pay over 80 CFA francs.

142.3 billion CFA francs dam is also planned on the Ntem River at Memve'ele. Until this new capacity is installed, the country will increase its thermal generation capacity to as much as a third of total electricity output to avoid shortages from 2007 that could hit the economy very hard. A new 150 MW gas-fired plant is also planned at Kribi by AES-Sonel. The country could have nearly 1 500 MW of power available by 2010.

The Cameroonian banking sector is quite solid but not very developed. It largely comprises 10 banks in good shape. The loan coverage rate was 139 per cent in June 2005 and six of the banks had a liquidity ratio of over 200 per cent. Prudential ratios are steadily growing and almost all the banks meet the six key ratios set by the national banking commission. Despite exposure to the troubled agro-food and cotton sectors in 2005 and accumulation of the government's domestic debt arrears in 2004, banking remained very profitable in 2005. Gross non-performing loans were a high 13.2 per cent however. Loans to the private sector, especially small and medium-sized businesses (SMEs), were very small. Loans to the economy were 81 per cent of all loans but only 10 per cent of GDP and focused on a few large borrowers. Long-term loans were only 0.35 per cent of the total. Fewer than 10 per cent of households had bank accounts. The microfinance sector is being reorganised and 260 out of 558 institutions identified had been officially approved by 20 September 2005. The Douala stock exchange had very little liquidity and the future of its shares operation is uncertain. But its bond dealings could be the key to its growth. Reorganisation of Campost, especially its financial services, is continuing.

The bad business climate is probably the biggest drag on growth of the otherwise vigorous formal private sector. Corruption is a worrying problem and Cameroon ranks very low on Transparency International's index of perceived corruption, at 137th place among 159 countries. Some development partners are reluctant for this reason to certify the country has achieved completion point in 2006. The sacking in November 2005 of the head of the Fonds spécial d'équipement and d'intervention intercommunale (Feicom) seemed to show the government's determination to crack down, however. Bureaucratic obstacles and slowness, as well as legal uncertainty, are other problems businesses have to face. The World Bank database *Doing Business* puts the country at 130th place out of 155 countries rated. It is especially complicated to start a business and taxation and non-compliance with contracts are other disincentives. Cameroon performs less well here than the average sub-Saharan country. The problem of "tax harassment" caused concern in the private sector in 2005, mainly because of increased arbitrary and excessive tax and customs inspections.

The private sector and the government seem to have built up a solid mutual distrust and the government made great efforts in 2005 to re-establish dialogue, starting with repayment of arrears on its domestic debt. It also tried to be more coherent, creating a single Ministry of the Economy and Finance responsible for managing the public investment budget. There seems more willingness, especially by the government, to consult the private sector, as shown by the August 2005 meeting of an interministerial committee expanded to include the private sector, a meeting of all the country's main business operators in January 2006 and consultation of the private sector in drawing up the 2006 national budget. The poor business climate will also be tackled by the revised national governance programme being drawn up with the help of the UNDP, though with the very small leeway the government has with the budget, this dialogue may not be very substantial.

Transport Infrastructure

Transport-related costs for the production section were put at 11 per cent of all intermediate consumption in 2001. This problem of cost and the quality of infrastructure is important because Cameroon has a special position in regional integration as a transit country for neighbouring landlocked CEMAC countries (the Central African Republic, Chad and Congo).

Cameroon's transport system is reasonably diversified and complementary. But infrastructures are inadequate and often in a bad state because of poor management and under-investment. Major government efforts were made in the mid-1990s, with the donor-backed transport sector programme (that expired in 2004 and is being revised) to upgrade infrastructure, improve management and regulation and ensure stable funding to meet the country's needs. Reaching completion point should boost these efforts.

The country has 50 000 km of roads, including 28 000 km of main roads (which are regularly maintained) and 5 000 km of surfaced roads. About 45 per cent of surfaced roads and 55 per cent of unsurfaced ones are considered satisfactory. The network has many weaknesses, including the bad state of roads to the north. The Yaounde-Ngaoundere-Garoua-Ndjamena road is not completely surfaced and is cut in many places and there is a dearth of roads from Douala along the Nigerian border. France's C2D aid is to fund partial upgrading of the Yaounde-Garoua section. The very bad state of Douala's urban infrastructure, especially traffic congestion, is also a major burden on the national and regional economy and a great paradox in view of the port-city's key economic role. Funding road work is still generally a problem. The "second generation" private-public national road fund has done quite well with maintenance and, since quite recently, reconstruction, using an effective system of funding through transit taxes (road tolls, fines and weight charges) and a tax on fuel. But the fund has only 30 billion CFA francs of the 50 billion it needs just for maintenance and the total 80 billion including reconstruction as well. Funders, mainly France and the EU, should increase their contribution to it. Paying for new infrastructure still depends on development partner contributions.

Ports, which handle nearly 98 per cent of the country's foreign trade (5.9 million tonnes in 2003), have undergone substantial reorganisation to improve their very weak performance in the period up until the late 1990s. The 1998 framework law led to the splitting of the national port management body into four autonomous ports (Limbe, Kribi, Douala and the river port of Garoua) that are supposed to compete and are regulated by a national ports authority. A one-stop shop (which is being computerised) has been opened to handle traffic at Douala and aims to reduce transit delays to seven days for imports and two for exports. Infrastructure is being upgraded under a joint project of the French Development Agency (AFD), the German development bank KfW and Japan. The port's main industrial and commercial activities were privatised in 2003/04, with the container terminal franchised to the Bolloré consortium (Saga, SDV and Socopao) and to Maersk and tugboat and piloting services to the French firm Les Abeilles. The results have been mixed and facilities are still inadequate (15-17 days to process imports compared with 24 before the changes but far from the goal of seven), charges are still too high and land-lease methods need to be harmonised and rationalised. The government has also not rehabilitated the port's warehouses as it promised. Substantial investment is needed to boost the country's capacity to ship out its exports, especially because of the congestion in Douala and the fact that it is not a deep-water port. Two such ports will be built at Kribi and Limbe – at Kribi to export gas, iron, bauxite and cobalt and at Limbe (after completion of an oil depot being built there) to receive and service offshore oil rigs.

Cameroon has 1 200 km of railways, 90 per cent used for freight (maximum 1.8 million tonnes a year). About 1 million passengers a year also use the railway, which is vital for economic links with the north because of the bad quality of the roads in the region. The railway has been franchised since 1999 to Camrail (the Bolloré group) and its dilapidated track and rolling-stock have required a major donor-supported 65 billion CFA francs investment over the period 1999-2007. This has boosted freight traffic (mainly wood and containers). The network can make money but only with a 4 billion CFA francs annual government subsidy for the passenger service, which is structurally unprofitable, mainly because of competition from road transport, which people prefer between Yaounde and Douala, for example. Major economic projects in the next few years will require further substantial investment in the railways, including a line from Ngaoundere to Kribi to ship out bauxite and another from Edea to Kribi to carry the extra aluminium to be produced by Alucam. The Douala-Edea line could also be upgraded to carry the alumina needed for Alucam's expansion of its capacity.

Seven airports handle most of the country's regular air traffic (mainly those in Douala and Yaounde) and processed nearly 1 million passengers and 20 000 tonnes of freight in 2003. They are run by the joint-stock company Aéroports du Cameroon (ADC). Camair is in deep financial trouble that could mean its liquidation soon. Talks between Cemac and Royal Air Maroc have failed to set up a regional airline to replace the defunct Air Afrique and the issue of a proper air transport policy for Cameroon and the region remains.

Political and Social Context

The country's politics settled down in 2005, after President Paul Biya's re-election as president in October 2004, which was preceded by many excesses, including uncontrolled government spending. The government was reshuffled to bring in ministers likely to renew dialogue with the private sector and restore the confidence of development partners with the goal of reaching completion point. The new government made various promises that seemed very likely to convince the country's funders to declare completion point in the first half of 2006. But these pledges may not be enough to overcome the mistrust felt by the private sector, whose rift with the government appears deep and long-term and covers (though does not correspond to) an ethnic division between the Bamileke and Beti peoples and a geographical divide between Douala and Yaounde. The population also faces a difficult economic situation, notably a reduction in purchasing power with its potential for social unrest.

The government is counting on the leeway it will get from completion point to fire up the economy and regain credibility. This bet may work economically but the bad governance problem could undermine it. Cameroon has no strong or credible opposition to make democratic transfer of power between parties very feasible, which prevents a change in the country's top leadership. Corruption is still endemic, perhaps encouraged by the lack of democratic alternatives. Maintaining a good quality leadership in the face of political manoeuvring and electoral calculation, and an ability to fight corruption effectively, are two major requirements if the extra breathing-space gained by reaching completion point is to be best used. This is crucial for this ethnically, religiously and linguistically patchwork of a country whose unity cannot be taken for granted.

Cameroon was (at $862 per capita) a high-income sub-Saharan country in 2003 and ranked 13th out of Africa's 48 states. Its education and health results are also better than those of the average sub-Saharan country. Yet it is still a poor country and the 2001 national household survey Ecam-II showed that 40 per cent of the population lived below the poverty-line (of 232 547 CFA francs per adult per year). The 2005 UN Human Development Index (based on the situation in 2003) put Cameroon at 148th place out of 177 countries. Poverty is probably growing in towns and cities because of a strong exodus from the countryside, insufficient public facilities and shortage of housing. The 1987 national population and housing census (RPGH) said 38 per cent of Cameroonians lived in urban areas. Now an estimated 50 per cent do so. Household access to services such as electricity is also rare and unevenly distributed among regions. The third national demographic and health survey (EDSC-III), carried out in 2004 and published in June 2005 said 52.8 per cent of all households had no electricity, including 84.5 per cent of those in the countryside. The national figure compared with 59 per cent in 1998 and 71 per cent in 1991.

Major efforts are still also needed in health and education, especially in the light of regional inequalities. Demand for education should remain very strong in coming years because the population is young, with 44.6 per cent below the age of 15, according to EDSC-III. This trend should continue as long as female fertility remains high (currently at 5 children per mother, down from 5.2 in 1998, 5.8 in 1991 and 6.4 in 1978). Ecam-II found a fairly high and rising literacy rate (68 per cent) for Africa (up from 47 per cent in 1987). Net school attendance was 77.8 per cent in primary and 32.8 per cent in secondary, according to EDSC-III. These figures hide major geographical imbalances, with 8.9 per cent of men having no formal education in urban areas, 25.5 per cent in the countryside and 44.3 per cent in the far north. Overall net primary enrolment is 87.5 per cent (urban) and 70.5 per cent (rural). These inequalities are even sharper at secondary level (48.3 per cent urban and 15.7 per cent rural). But gender inequality (measured by the gender parity index) in access to education is quite small, at 0.96 (urban) and 0.85 (rural). The gap is wider at secondary level (0.88 urban and 0.72 rural), but the trend seems positive. While 90.6 per cent of women over 65 have no education, only 27.4 per cent of girls between 6 and 9 have none. The government is making great efforts in education, with 29 per cent of the national budget earmarked for it. About 1 700 supply teachers were taken on in 2005 and 1 246 classes added in 2004/05. The government wants to reach the Millennium Development Goal (MDG) of universal access to primary education by 2015, though the quality of education should also be a concern, as there is currently an average of one teacher for every 63 pupils.

Cameroon's health policy is largely based on a policy paper adopted in 2001 that identified sector strategies and included an expanded vaccination programme (EVP) for 2001-05. Government outlay on health was 5 per cent of total spending in 2005. An analysis compiled as part of EDSC-III showed that in 2004 the country had one hospital bed for every 442 people (down from 393 in 1990) and one doctor for every 5 673 people (an improvement on the 11 407 in 1990). Health performances are satisfactory in urban areas (at least compared with the rest of Africa) but not in the countryside, where conditions drag down national indicators. EDSC-III found that 47 per cent of households (25 per cent urban, 70 per cent rural) had no access to clean water. Infant mortality is still high and has been steady since the 1998 EDSC, at 29 deaths per 1 000 under the age of one month, 45 between one and 12 months and 144 among those under five years old. Again regional disparities are very large, with 68 per 1 000 in urban areas and 91 in the countryside.

Malaria and AIDS are the two main causes of death in Cameroon and the government is making special efforts to combat them. The country has 10 malaria impregnation centres, which is not enough. The price of treated mosquito nets was reduced from 5 000 to 3 500 CFA francs in 2004 but only 20 per cent of households have at least one (17 per cent in the countryside). The HIV/AIDS infection rate was put at 5.5 per cent in the 15-49 age-group by EDSC-III. The national anti-AIDS plan drawn up in 2000 is being revised for the period 2006-10. Nineteen new prevention and testing centres have opened and 53 538 people were tested in 2004, up from only 6 000 in 2003. The price of anti-retroviral (ARV) drugs was brought down from 7 000 to 3 000 CFA francs per dose in January 2005 and they are now given free to infected children. Infected pregnant women and newborn babies get free nevirapine. The cost of half-yearly follow-up tests of ARV patients has also been cut, from 18 000 to 16 000 CFA francs. EDSC-III showed how much work is still needed in publicising the disease, and how to avoid it by changing sexual behaviour and limiting the risk of passing it on.

Significant progress has been made in vaccination and in 2004 nearly half of all children between 12 and 23 months had received all the shots in the EVP (except yellow fever) and only 5 per cent had not been vaccinated at all. Only 36 per cent of children in this age group had been vaccinated in 1998.

The challenges of access to health and education and of fighting poverty are still enormous. Achieving the MDGs will require average annual economic growth of 7 per cent in the period 2000-15, which seems unlikely. But immediate progress can be made in making government anti-poverty efforts more effective and the details of the poverty reduction strategy paper (PRSP) in the national budget and the medium-term expenditure framework (especially long-term investment budgets) could be made more coherent. Use of anti-poverty funds must be improved, since their execution rates in 2004 were only 65 per cent (engagement) and 57.5 per cent (disbursement), according to the report on the PRSP's implementation stage (January 2004- March 2005). Statistical monitoring of PRSP implementation is also inadequate. The government seems to want to go further and modify its anti-poverty efforts with a "growth PRSP" with greater emphasis on infrastructure investment and private sector development, so the 2003 PRSP is expected to be revised.

Chad

key figures

• Land area, thousands of km^2	1 284
• Population, thousands (2005)	9 749
• GDP per capita, \$ PPP valuation (2005)	1 671
• Life expectancy (2000-2005)	43.6
• Illiteracy rate (2005)	49.3

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/811611153426

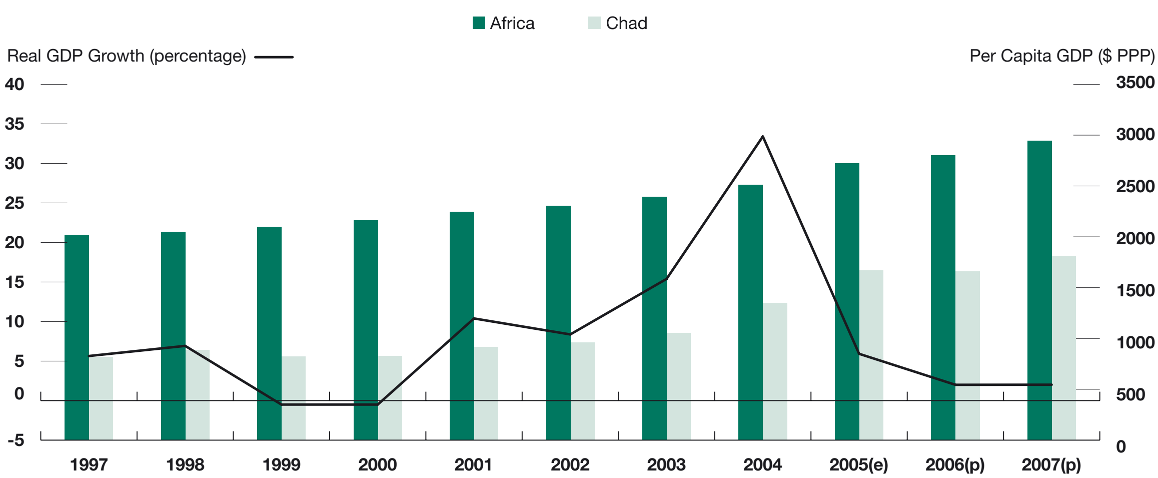
Chad

AFTER A SLOWDOWN IN ECONOMIC growth in 1999 and 2000 and then a return to growth that was fuelled by investments in the oil sector between 1999 and 2003, the Chadian economy has now entered the oil era. The GDP growth rate accelerated to 31 per cent in 2004 from 11.3 per cent in 2003 as a result of the increase in oil output that followed the start of production in the Doba basin in July 2003. Exports of the "black gold" were the principal driving force behind growth in 2004. A marked reduction was expected in 2005, however, under the impact of a fall in investments in the oil sector and a shortage of electricity. The increase in oil revenues and in donor budget aid should nevertheless make it possible to reach a growth rate of 13 per cent, even if the rate is expected to continue to fall in 2006 (see Figure 1).

The political situation is very tense following the revision of the constitution to enable the head of state to seek a new term. In addition, the government in N'Djamena suspects neighbouring Sudan of fomenting rebellion to destabilise it. Exploitation of oil wealth has created tensions as is attested by the crisis in relations with the World Bank, which decided at the end of 2005 to suspend its payments after the government sought to renege on its commitments regarding the use of oil revenues.

Management of oil revenues is causing tension.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and National Institute of Statistics, Economic and Demographic Studies (INSEED) data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

Chad's economic performance was satisfactory overall in 2004/05 despite a slight slow-down in growth in the non-oil sector, which progressed only 1.9 per cent in 2004. The new context of oil production has changed the contribution to GDP of the different sectors. The added value of the primary sector rose from 40 per cent on average in 2001 and 2002 to 46.5 per cent in 2003 and 65 per cent in 2004. That of the secondary sector, which averaged 13 per cent from 2001 to 2003, fell to 7.3 per cent in 2004 as work on construction of the oil pipeline between Doba in Chad and Kribi in Cameroon came to an end. Stimulated by the indirect effects of oil investments, the tertiary sector, which averaged 43 per cent between 2001 and 2003, fell to 27.8 per cent in 2004 as oil-sector development work was completed.

At the sectoral level, the structure of GDP is as follows: 43 per cent for the secondary sector, 24 per cent for the tertiary sector and just 24 per cent for the primary sector.

The non-oil primary sector faces a variety of constraints. Rainfall remains generally insufficient and badly distributed. The Saharan desert zone, where it barely rains at all (50 millimetres per year), covers 60 per cent of the country's land area, while the Sudanese or tropical zone, where rainfall is more than 900 millimetres per year, covers only 10 per cent. The production system is extensive and not very productive. The insufficiency and poor condition of basic social and economic infrastructure, the isolation of production zones, due to poor road conditions and the absence of organised marketing circuits, makes it difficult to bring in inputs and sell production.

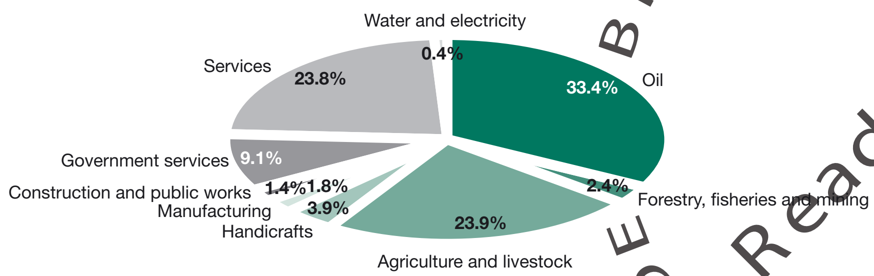
In the 2004/05 production season, the primary sector (agriculture) was affected by a 20 per cent fall in the production of cereals: millet, sorghum, rice and maize. Production of manioc and groundnuts declined 60 and 7 per cent respectively. This fall was due to a number of factors – insufficient rainfall, locust attacks and crop switching in favour of cotton production. Sugar production increased 23 per cent, rising from 267 000 tonnes in 2003 to 327 000 tonnes in 2004. This increase was principally the result of investments made by the Compagnie Sucrière du Tchad (CST). The activity was often penalised, however, by illegal imports from Cameroon and Nigeria. Gum-arabic production rose by 7 per cent, increasing from 16 000 tonnes in 2003 to 17 100 tonnes in 2004.

Cottonseed production, which provides work for 350 000 smallholders, showed a strong increase in the 2004/05 season, reaching 200 000 tonnes, compared with 102 100 tonnes in the preceding season. The sector benefited from an increase in prices paid to producers, which rose from 158.6 CFA francs per kilogramme in 2003 to 187 CFA francs per kilogramme in 2004. This increase, which was decided by the public authorities as a means of combating poverty, partly explains the rise in cotton production. The price rise will not be enough to turn the sector around, however, since world prices are tending to fall. The crisis in the sector, which accounted for a third of export revenues before the start of oil production, began some years ago with the fall in the international prices and the structural difficulties of CotonTchad, the state-controlled cotton company, which is in a monopoly position but burdened by heavy debts. In addition, the country's landlocked position and the poor condition of roads increases the cost of cotton transport to the point that it seriously undermines the profitability of production. In the years to come, financial difficulties of the sector and the decline in international prices run the danger of pushing farmers once again to leave the sector and of reducing production. A new action plan destined to allow reforms to be pursued in the 2005/07 period has been drawn up with the assistance of the World Bank and submitted to the government. It provides for the privatisation of CotonTchad in 2007.

Livestock husbandry is still a major asset of the Chadian economy. The livestock population comprises about 16.5 million animals, including 6.3 million cattle, 8.1 million sheep and goats, 1.2 million camels, and 715 300 horses and asses. Livestock husbandry earns 117 billion CFA francs each year, 65 billion CFA francs of which from exports, destined essentially for Nigeria. The sector employs 40 per cent of the working population. Three main modes of livestock husbandry coexist: the transhumant pastoral system, the nomadic system and the sedentary-breeding system. The dominant mode is the nomadic and extensive type, which accounts for 80 per cent of the sector. Cattle breeding is practised in the Sahelian zone but is a secondary activity in the Sudanese zone.

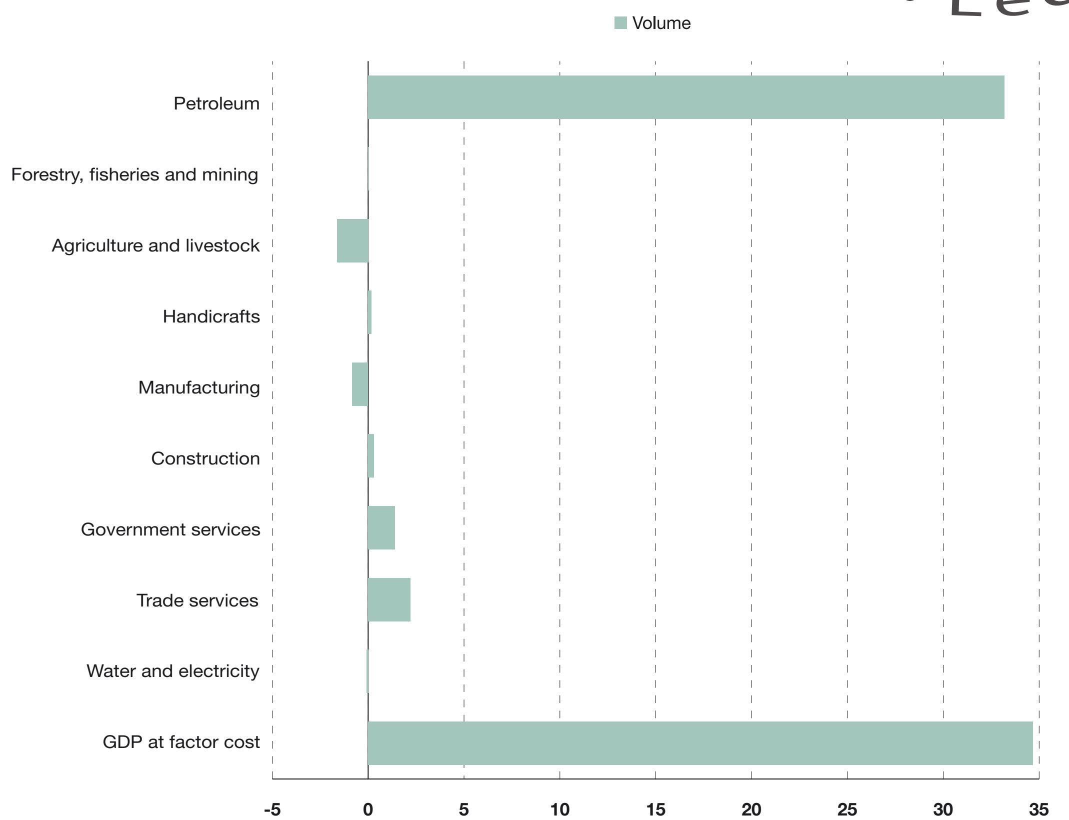
The production and distribution markets are not very organised. Prices remain quite competitive compared with those of other countries in the sub-region. To increase production while at the same time preserving the environment, the government has opted for a capacity-building policy for the organisations

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: INSEED data; estimates (e) and projections (p) based on authors' calculations.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on INSEED data.

involved, grass-roots communities and the decentralised local authorities. The 1988/99 national stockbreeding project, the Projet national de l'élevage (PNE), facilitated the construction of 68 pastoral wells, the training of managers, the institution of a stockbreeding fund, the liberalisation of veterinary-input supply, the rehabilitation and privatisation of the refrigerated Farcha slaughterhouse and the formation of 300 pastoral interest groups. Livestock husbandry played a positive role in economic growth in 2004.

Fishing is practised in the country's numerous water fields, notably Lake Chad, the Logone-Chari flood plains, and various other lakes and flooded plains. Theoretical fish-production potential is 150 000 tonnes per year. The number of professional fishers is estimated at 20 000 and that of seasonal fishers at 200 000. About 20 000 persons, 80 per cent of whom are women, are involved in marketing fish products. The national development strategy for the sector is defined in the fishing and fish-breeding master plan, which was drawn up in 2003 with the help of the African Development Bank (AfDB). Its objectives are the sustainable management of fish and to fight poverty. Support from donors and non-governmental organisations (NGOs) for the government's strategy is limited for the time being.

In July 2003, Chad joined the club of oil-producing countries following the opening of the Doba-Kribi oil pipeline. In August 2004, the Bobolo field came into activity after the Miandoum and Komé fields. Oil production reached 8.7 million tonnes, or 172 603 barrels per day. At the same time, however, oil revenues are not yet at the level anticipated by the authorities. The production, which is almost entirely exported, is evaluated at $18 per barrel, whereas the Brent-oil price per barrel stands at more than $50 on the international market. This situation has a twofold explanation. On the one hand, Chad's oil is heavy, viscous, acidic and high in calcium content, entailing a lesser value, up from $1.7 in October 2003 to $11 per barrel in December 2004. On the other hand, transport costs are high, partly as a result of the fact that the pipelines are not being used to capacity.

Management of the resources generated by oil production is strictly regulated by the oil-revenue management law that was adopted in 1999. Under the terms of this law, direct revenues, i.e., royalties and dividends due to the state (12.5 per cent of the price at which crude oil is sold on the international market), are paid into a state account. Ten per cent of this revenue is then placed in a savings account opened with an international institution for the benefit of future generations. The remaining 90 per cent are distributed as follows: 80 per cent for the financing of specific development projects in priority sectors such as education, health, infrastructure, rural development, the environment and water supply; 15 per cent for general and investment expenditures in the state budget and; 5 per cent for the local authorities in the oil-producing area.

The impact of oil revenue on poverty has so far not been very effective because the organisational and administrative capacities to use these funds are deficient. A new kind of relationship between the state and the donors should eventually make it possible to implement structural projects.

Stimulated by the development work in the oil sector, the share of added value in the secondary sector fell from 10 per cent of GDP in 2003 to 7.3 per cent in 2004. Also in 2004, 47.9 per cent of added value came from handicraft, 21.9 per cent from the manufacturing industry, 13.6 per cent from construction and 10.9 per cent from oil-industry development activity. Manufacturing activity slowed down for two main reasons: electricity supply from the Chadian water and electricity company, the Société tchadienne d'eau et d'éléctricité (STEE) was irregular and there was competition from illegal imports. In addition, the end of investment in the Doba oil basin, the postponement of construction of a refinery in N'Djamena and the limitation of the state's major works explain the low contribution of the construction sector to GDP growth in 2004.

Industry is dominated by five companies: CotonTchad, Sonasut, Brasseries du Logone, Manufacture des Cigarettes and the STEE. Each of these has a monopoly position in its respective branch. These companies account for 92 per cent of the added value of the industrial sub-sector. The high cost of technical production factors and the country's land-locked situation are not favourable to industrial development, however.

The tertiary sector showed some vitality in 2004 with a growth rate of 4.2 per cent thanks to the trade branch and to non-market services, which were helped by payment of the debts incurred by the state with local economic operators. The transport and telecommunications branch continued to progress under the effect of investment in extensions to the cellular-telecommunications networks in the provinces.

The structure of demand in Chad shows that final consumption increased in 2002 in line with the period's

Table 1 - Demand Composition (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**14.5**	**57.8**	**47.3**	**28.9**	**22.2**	**22.6**	**24.6**
Public	4.5	5.8	6.7	5.3	6.8	6.4	6.2
Private	10.0	52.0	40.6	23.5	15.4	16.3	18.4
Consumption	**103.1**	**89.9**	**81.1**	**56.8**	**57.4**	**58.7**	**62.5**
Public	13.7	14.9	15.4	11.3	12.6	11.9	12.3
Private	89.4	74.9	65.7	45.4	44.8	46.8	50.3
External sector	**-17.6**	**-47.7**	**-28.4**	**14.4**	**20.4**	**18.6**	**12.9**
Exports	20.2	17.6	26.5	59.1	60.7	60.1	56.8
Imports	-37.9	-65.3	-54.8	-44.7	-40.3	-41.5	-44.0

Source: Banque des États de l'Afrique centrale (BEAC) and INSEED data ; estimates (e) and projections (p) based on authors' calculations.

general economic expansion. Since then, however, consumption has fallen. In 2004, it represented 56.8 per cent of GDP, compared with 81.1 per cent of GDP in 2003. Final private consumption continued to decrease in 2005 before a probable recovery in 2006, which should take it to 50 per cent of GDP in 2007. Despite a slight increase in 2005, final public consumption should fall in 2006 under the effect of political uncertainty (see Table 1). The same downward trend can also be seen in investments following the end of construction of the oil pipeline. Investments thus fell from 47.3 per cent of GDP in 2003 to 28.9 per cent in 2004. For 2005, they were estimated to fall again to 22.2 per cent of GDP and the decline is expected to continue in 2006.

The first indications of economic growth in 2005 and the projections for 2006 show an increase in the contribution of the non-oil sector (5.8 per cent in 2005 compared with 1.9 per cent in 2004). In the longer term, the major challenge is to diversify the economy, which has become largely oil-dependent, by recycling oil revenue in durable fashion.

Macroeconomic Policies

Fiscal Policy

The year 2004 was marked by severe tensions in the liquidity position, which led to a revision of the finance law in August 2004. Implementation of the budget finally ended on a deficit of 25.9 billion CFA francs on a commitments basis, grants included. In 2003, the deficit had amounted to 69.1 billion CFA francs.

Revenue totalled 217.4 billion CFA francs in 2004, compared with 133.1 billion CFA francs in 2003. Of this, oil revenue amounted to 69.8 billion CFA francs, compared to 10.6 billion CFA francs in 2003. Despite this sizeable increase, oil revenue was lower than expected because of the increase in transport costs and the considerably lesser value of Chadian crude oil, given its technical characteristics, notably its high acidity and viscosity. At the same time, non-oil tax receipts increased by 20 per cent from 2003. This increase came essentially from an increase in customs receipts and in tax receipts on goods and services. Income-tax receipts fell, however, because of the departure of most of the sub-contractors working on the Doba oil project.

Oil revenue represented 32 per cent of state revenue in 2004. In 2005, tax receipts remained at the same level as in 2004. At the same time, a small drop in these revenues is expected in 2006 and 2007. Oil revenue has been earmarked according to the terms of the law on oil-revenue distribution. In this way, in 2004, out of a total of 107.2 billion CFA francs in net direct revenue, 67 billion CFA francs were allocated to the budget, 19.6 billion CFA francs to the stabilisation fund, 13.7 billion CFA francs to the Future Generations Fund (FGF) and 6.7 billion CFA francs to the fund for oil-producing regions. These different funds are kept with the BEAC.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**13.9**	**14.7**	**17.1**	**15.9**	**15.9**	**15.6**	**15.3**
Tax revenue	6.4	7.1	7.3	5.3	5.1	5.2	5.4
Grants	6.3	6.7	8.4	6.1	4.3	3.9	3.9
Total expenditure and net lending[a]	**17.6**	**20.7**	**21.7**	**17.1**	**20.1**	**19.1**	**19.0**
Current expenditure	8.2	10.0	8.8	6.2	6.8	6.7	6.9
Excluding interest	*7.2*	*9.1*	*8.3*	*5.8*	*6.3*	*6.2*	*6.4*
Wages and salaries	3.4	3.5	3.7	2.8	2.6	2.5	2.5
Interest	0.9	0.9	0.5	0.4	0.5	0.5	0.5
Capital expenditure	9.5	10.7	12.9	10.9	13.2	12.4	12.1
Primary balance	**-2.8**	**-5.1**	**-4.1**	**-0.7**	**-3.7**	**-3.0**	**-3.2**
Overall balance	**-3.8**	**-6.0**	**-4.5**	**-1.2**	**-4.2**	**-3.5**	**-3.7**

a. Only major items are reported.
Source: BEAC and INSEED data ; estimates (e) and projections (p) based on authors' calculations.

Expenditure fell in 2005 in relation to 2003 but was slightly up from 2004. It dropped from 21.7 per cent of GDP in 2003 to 17.1 per cent of GDP in 2004, but then rose to 20.1 per cent of GDP in 2005. It should be stabilised at 19 per cent of GDP in 2006 and 2007. Current expenditure increased slightly in the 2004/05 period. Restructuring expenditure rose 29 per cent by virtue of the financial support given to CotonTchad and the STEE. The state reduced its commitments to the non-banking sector by 23.6 billion CFA francs and continues to draw on borrowings for a total of 56.7 billion CFA francs. Investment expenditure remained preponderant at 86.9 per cent. Allocations to priority sectors and implementation of expenditure were not always up to forecast, however, because of low capacities for the absorption of expenditure and for its monitoring up to destination. In 2004, in an effort to improve the expenditure implementation rate, a large part of resources had to be attributed to the ministry of public works and transport, which had completed its contract-award programme. An increase in transfers can also be observed (1.2 per cent of non-oil GDP in 2005, compared with 0.6 per cent of non-oil GDP in 2001), reflecting the subsidies granted to CotonTchad and to military spending (1.6 per cent of non-oil GDP in 2005, compared with 1.9 per cent in 2001).

The 2005 budget inaugurated the start of the oil era, which got under way a year late, because of administrative difficulties in mobilising the first oil revenues and because of the withdrawal of external aid. In this budget, the oil revenue, which was estimated at 88.1 billion CFA francs, was directed towards the priority sectors – construction, health, agriculture, water supply, livestock husbandry, education, social action and higher education. The allocation for future generations came to 12.5 billion CFA francs and that for the producing regions to 6 billion CFA francs. Attainment of maximum daily oil production and the arrival of donor budget support certainly improved the budget receipts in 2005. The deficit (on a commitments basis, excluding grants) could increase slightly, however, because of the expected increase in the investment expenditures financed by internal resources once the HIPC Initiative completion point has been reached.

In 2005, pressure to increase military spending led the authorities to seek to modify their commitments regarding the use of oil revenue.

Monetary Policy

Monetary and credit policies are managed at the regional level by the BEAC. Money supply evolved for the most part in line with the oil-activity cycle. It thus contracted by 3.1 per cent of GDP between 2001 and 2003 as net foreign assets diminished due to the end of investments in the oil sector, and then it increased by 6.7 per cent in 2004 as net foreign assets climbed 12.8 per cent in line with oil exports. Credits to the economy, which had increased 22 per cent on average in 2001 and 2003, rose only 1 per cent in 2004, reflecting the contraction of activities in the non-oil sector. The government's net position improved by 12.9 per cent between 2001 and 2004. Its deposits at the BEAC from oil revenue (40 billion CFA francs) largely compensated for the bank debts and the exceptional 14 billion CFA francs advance it had received from the BEAC.

The average bank lending interest rate is 22 per cent, which makes access to credit difficult and burdens investment profitability. The nominal exchange rate of the CFA franc has followed the appreciation of the euro against the dollar, which has been unfavourable to exports and to the country's competitiveness. Net foreign assets progressed by 23.8 per cent. This evolution in monetary aggregates reflects the economy's expansion, principally under the impact of the inflow of external capital within the framework of the Doba oil deposit's opening up for development and of the poverty-reduction programme.

After sharp increases recorded in 2001 and 2002 as a result of the oil boom, the overall level of prices diminished for the second year running in 2004, settling at an average -5.4 per cent for the year. This new decrease is explained partly by a good level of food supply in the markets and partly by a lesser demand resulting from the slower activity of the sub-contractors that had worked on oil projects. The inadequate supply of food-crop output following the poor 2004/05 agricultural growing season could generate some tension on prices, and the inflation rate could reach the 3 per cent threshold.

External Position

The trade deficit continued to diminish, falling from 750.4 billion CFA francs in 2003 to 156.1 billion CFA francs in 2004. This new reduction resulted from the advent of a 762.8 billion-CFA franc trade surplus, which itself was generated by the significant increase in crude-oil exports. The latter accounted for 81 per cent of total exports at 931.1 billion CFA francs, compared with 136.8 billion CFA francs in 2003. The product of livestock sales increased from 134.7 billion CFA francs in 2003 to 159.4 billion CFA francs in 2004 under the combined effect of a 15 per cent increase in export prices and a 3 per cent rise in the number of animals sold. The value of cotton exports fell 46 per cent as a result of a drop in the volume marketed in 2004 following a collapse in production in the 2003/04 season. Imports dropped 14 per cent to 389.5 billion CFA francs in 2004 as the Doba oil project came to an end and public-sector purchasing diminished.

The services deficit worsened between 2002 and 2004 as the freight activity linked to construction of the oil pipeline came to an end. The deficit in factor income also deteriorated, from 256.3 billion CFA francs in 2003 to 366.4 billion CFA francs in 2004[1]. This difference is explained by Exxon, Petronas and Chevron's repatriation of their remuneration for direct oil investments. The current-transfers surplus increased from 57.6 billion CFA francs in 2003 to 83.5 billion CFA francs in 2004 thanks to the international aid made available for refugees from Darfur. The gradual fall in investments in the oil sector resulted in a reduction in the surplus of the capital and financial-transactions account. The overall balance-of-payments account recovered from a deficit of 27.1 billion CFA francs in 2003 to a surplus of 17 billion CFA francs in 2004. The state thus reconstituted its official reserves to a level of 18.7 billion CFA francs but accumulated external arrears totalling 1.7 billion CFA francs.

Chad is a member of the BEAC, the Economic and Monetary Community of Central Africa (CEMAC) and the Economic Community of Central African States (ECCAS).

France remains the country's principal trading partner and provides the biggest share of imports,

1. These differences are not visible as a percentage of GDP in the current-accounts table, however, because of the strong growth experienced by Chad in 2004.

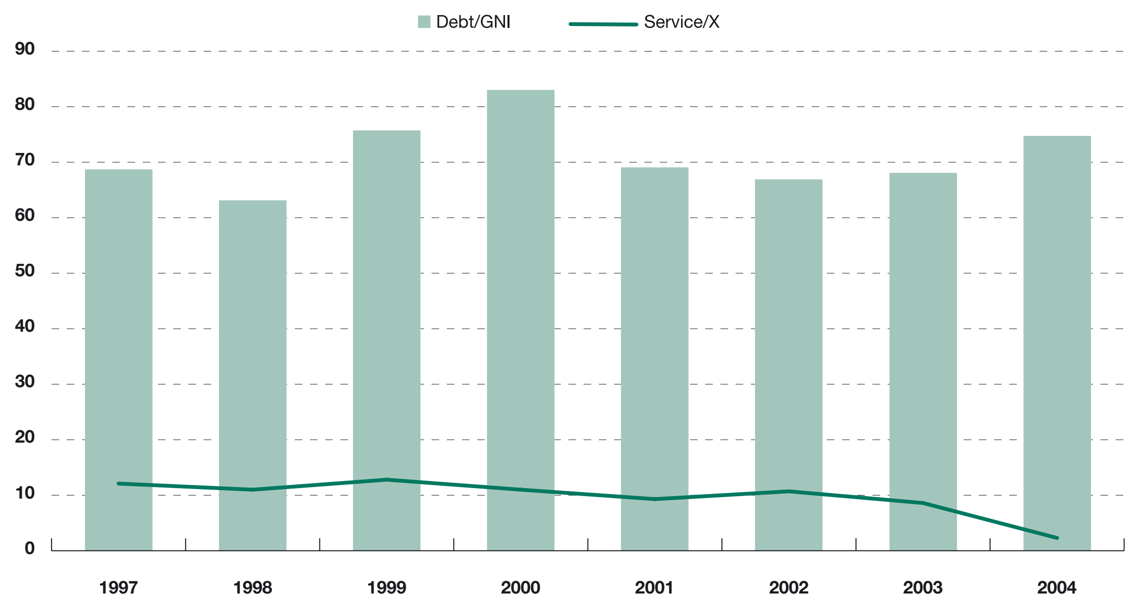
followed by Nigeria, Cameroon and other members of the European Union (EU). The construction phase of the Doba project significantly increased the share of the United States (US). The main imports from the US include industrial, computer and construction facilities, building equipment, and wheat flour. Chad exports most of its cotton to southern Europe, its livestock to Nigeria and its Gum arabic to Europe and the United States. Sanctions against Sudan, a competing producer of Gum arabic, explain the US share, built up over nearly the past decade. The trade balance improved in 2005. It is expected to fall slightly in 2006 and 2007, however, because of a virtual stagnation of exports and an increase in imports.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-0.6	-32.7	-9.3	34.5	38.1	37.0	32.4
Exports of goods (f.o.b.)	15.3	9.4	23.0	52.1	54.4	53.9	50.3
Imports of goods (f.o.b.)	-16.0	-42.1	-32.4	-17.6	-16.4	-17.0	-17.8
Services	-11.6	-30.5	-28.9	-28.7			
Factor income	-1.1	-3.0	-17.5	-16.6			
Current transfers	1.8	3.6	3.8	3.8			
Current account balance	**-11.5**	**-62.6**	**-51.9**	**-7.1**			

Source: BEAC and INSEED data ; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

Chad's external debt increased by 16.6 per cent in 2003. In May 2001, the country reached the HIPC Initiative decision point and obtained from the Club of Paris the cancellation of $10 million of external debt and the rescheduling of another $5 million. Chad was not able to attain the completion point at the end of April 2004 as expected, because its efforts in the field of governance, the social sectors and rural development were not considered satisfactory. It has therefore had to pay the World Bank 100 per cent of its debt service since July 2004. Following a request from the government, however, the bank's board approved a two-year extension of the interim period. This relief is retroactive from July 2004.

Internal debt was estimated at 116 billion CFA francs, or 5.1 per cent of GDP, at the end of June 2004. It is constituted in part by public-service wage arrears. In 2004, arrears of 8.9 billion CFA francs had been paid, and payment agreements had been concluded with certain creditors. An overall debt-settlement plan is being drawn up. In February 2005, the International Monetary Fund (IMF) granted Chad $2.1 million in interim aid under the terms of the HIPC Initiative. The completion point should be attained in 2005, subject to complying with the criteria of the current Poverty Reduction and Growth Facility (PRGF).

In November 2004, the World Bank granted Chad a $25 million Institutional Reform Support Credit (IRSC) destined to finance institutional reforms. It recently decided to suspend all its payments, however, after parliament brought into question the law on the use of oil revenue in 2005. In February 2005, the IMF agreed to grant a three-year 25.2 million Special Drawing Rights (SDR) loan within the framework of the PRGF. In May 2005, the African Development Fund (AfDF) announced that it would finance to $9.47 million a project for the protection and better management of natural resources. The EU also concluded with Chad a co-operation programme for a total of 273 million under the terms of the 9th European Development Fund (EDF) for the period 2002-07.

Structural Issues

Recent Developments

With support from its development partners, the government is pursuing the structural reforms to which it committed in the 1990s as part of market liberalisation. Of the 50 or so companies identified, 14 have been put into liquidation, 12 have been restructured and 15 privatised. The privatisation of other companies such as CotonTchad, the STEE and Sotel Tchad, is being studied. CotonTchad, in which the state owns the majority and the French company Dagris 25 per cent alongside some smaller shareholders, was due to be offered for sale in 2005. The STEE was completely re-nationalised after the withdrawal of its buyer, Veolia Water, in August 2004. The slow-down in the privatisation of public enterprises in recent years is principally the result of the unattractive business climate. Only Sonasut (the national sugar company), the Société Nationale d'Entretien Routier (SNER, the national road-maintenance company) and the oil and soap company, DHS, have been privatised. DHS is in a critical financial situation, however, a reflection of the difficult environment of the private sector. Operating licences had been granted to two private mobile-telephone operators, one of which went bankrupt. The privatisation of Sotel Tchad is planned with assistance from the International Finance Corporation (IFC).

The Chadian banking system comprises seven banks: the Banque Agricole du Soudan au Tchad (BAST), the Banque Commerciale du Chari (BCC), the Banque Internationale pour l'Afrique au Tchad (BIAT), the Commercial Bank Tchad (CBT), the Financial Bank Tchad (FBT), the Société Générale de Banque Tchadienne (SGBT) and the Banque Sahélo-Saharienne pour l'Investissement et le Commerce (BSIC). The Chadian economy has a weak banking presence. The population suffers from an insufficient number of branches. The combined total of bank balance sheets increased by 15 per cent to 172 billion CFA francs in 2004 from 149 billion CFA francs in 2003. The boom in oil-related activities has brought about no more than a small increase in the volume of banking activity, given the essentially offshore nature of their financing. The "oil effect" has nevertheless opened up new prospects for the banks, notably in the form of an enlargement of their clientele to employees of the big oil companies and to the middle class that will perhaps emerge as the oil sector develops. Microfinance, which is still relatively small-scale, is enjoying a certain vitality in the field of financial services.

Administrative reforms, which began in 1995, are continuing. A new public-service status was adopted in 2001, and several application texts will soon be so. The government has undertaken vast reforms in the area of public contracts. It wishes to redraft all the texts and improve the contract-award procedures so as to make them transparent and give development partners confidence. Measures to improve transparency include the publication of quarterly reports detailing public contracts and fiscalisation of the new public-contract code. In 2003, the government adopted a new public-contract code detailing the application texts and the standard documents to be used for tenders. The new code brings contract award procedures into line with international standards. It still contains some deficiencies in the regulatory framework, at the institutional level and with regard to the integrity of the system, however, and the government has committed to correcting these in 2006.

Transport Infrastructure

Chad's geographical situation makes it a landlocked country for which the nearest port – Douala, in Cameroon – is more than 1 700 kilometres from its capital, N'Djamena. The alternatives are even farther away: Lagos is 1 900 kilometres away, Cotonou 2 000 kilometres away, Lomé 2 100 kilometres away and Pointe Noire 2 700 kilometres away.

There is no official system for the classification of public road infrastructure. There is no order of importance of roads and roads do not have any regulatory identification number. The flow of international trade by road gives an idea, however, of the demand for transport and, by the same token, infrastructure. Imports by volume increased from 388 014 tonnes in 2003 to 417 357 tonnes in 2004. Export volumes fell from 79 113 tonnes to 59 758 tonnes over the same period. Most road-borne trade is between Chad and Cameroon. Next comes trade with Nigeria, Libya, Sudan, the Central African Republic and, finally, Niger. The volume of domestic trade increased from 366 928 tonnes in 2003 to 424 438 tonnes in 2004. The N'Djamena region is the main source of domestic flows, followed by those of Hadjer Lamis, western Logone and Tandjile.

The "national" road network comprised 6 200 kilometres in 1999, compared with 3 800 kilometres in 1989. Other roads, which have an estimated overall length of 33 800 kilometres, are either rural roads and tracks or regional and local roads, although these designations are not based on any clear formal classification. To these networks should be added the urban networks of the four main cities – N'Djamena, Moundou, Sarh and Abéché.

The Chadian road system comprises two networks. The permanent national network covers 2 562 kilometres, while the national seasonal network takes in another 3 600 kilometres. These two networks are classified according to the quality of their construction. There are 650 kilometres of surfaced road in the permanent network and there are earth roads that have foundations (often in the form of backfill), drainage and a top surface. These latter roads account for 1 787 kilometres of the permanent network and 1 228 kilometres of the seasonal network. There are also rough earth roads, often of mediocre quality, which develop on the natural terrain: drainage is partial and top surface is constituted of material on hand. These roads constitute 1 490 kilometres of the seasonal network. The tracks correspond to the natural terrain, partly improved, with some drainage work and additional materials. Tracks represent 123 kilometres of the permanent network and 808 kilometres of the seasonal network.

Of the permanent national network, 61 per cent are in an unacceptable state. The surfaced-road network, in an average or very poor state of repair, has or will be repaired and reinforced. It should be in a satisfactory condition by 2006. The only earth roads in good condition are the 44 kilometres of road maintained as part of the Gestion de l'Entretien par Niveau de Services (GENIS) pilot project. They represent 23 per cent of the non-surfaced priority network. The national seasonal network is much less maintained. Its state is mediocre overall, with 43 per cent in an average condition and the remainder in poor condition.

Little information is available on transport in the rural areas. Lack of data means it is not possible to offer a serious analysis of river and lake transport. Activity on the rivers and Lake Chad is generally informal and carried out with traditional means.

Air transport comprises several thousand aircraft movements, about a hundred thousand passengers and several thousand tonnes of freight. Although air transport is essential for the country, its economic scale is still small. Following the cessation of activity of Air Tchad and, in the absence of any other carrier offering regular connections, it is difficult to estimate domestic demand for air transport. The air transport network is made up of five main airports – N'Djamena international airport, Abéché, Faya-Largeau, Moundou and Sarh, – all managed by the Agence pour la Sécurité de la Navigation Aérienne en Afrique et à Madagascar (ASECNA). They are flanked with small airports at Ati, Am-Timam, Bilitine, Bokoro, Bol, Bongor, Bousso, Doba, Lai, Mongo, Mao and Pala. Only the N'Djamena and Sarh airports are considered to be in good condition. The others are in a worrying state. They lack facilities such as fire engines, safety equipment and radio beacons and, from a regulatory point of view, should not receive commercial traffic. All the airports open to public traffic are managed by the civil aviation department, the Direction de l'aviation civile (DAC).

Political and Social Context

Chad counts some 60 political parties. The president of the republic is elected for a five-year term. A revision of the constitution, which abolishes the limitation on the number of presidential terms, was adopted by referendum on 6 June 2005. Many suspect the head of state, Idriss Déby, of having in this way found a way of running again in 2006. If such is the case, it will pose the problem of democratic change-over in Chad. The presidential election will be followed by the legislative elections and the first local elections in the country's 50 biggest communes. The peace agreement signed in 2003 with the rebels of the Mouvement Démocratique pour la Justice au Tchad (MDJT) was rejected by one faction of the movement. The cabinet reshuffle of February 2005, when a new prime minister was appointed, allowed a certain geopolitical balance to be established.

Corruption and anti-free-market policies are particularly prejudicial to the Chadian economy. Despite the efforts being made to set up regulatory institutions, the ineffectiveness of judicial, administrative and legal reforms discourages investments except in the oil sector. Massive corruption and slow bureaucratic procedures make it difficult to do business in the country. The government has committed itself to the promotion of sound management of public affairs as a means of combating injustice, corruption and misappropriation. It has started to implement the national good-governance strategy, the Stratégie Nationale de Bonne Gouvernance (SNBG), adopted in 2002, which redefines the roles of the state and the private sector, reinforces transparency and accountability in the management of public funds, and redefines the functioning of the civil-service and the judicial system.

The decentralisation process has continued with the designation of 18 regions, 50 departments and 200 communes. Governors and prefects have been appointed to head the regions and departments and the development of rural-community structures is progressing. Financial, fiscal and accounting regimes for the decentralised territorial authorities (collectivités territoriales décentralisées, or CTDs), notably, have been adopted, pending the adoption of laws detailing the distribution of CTD and state jurisdiction, and the resources to be made available to the CTDs. The blueprint for decentralisation is being drawn up with assistance from the United Nations Development Programme (UNDP). Decentralisation is nevertheless meeting some serious obstacles in the form of the high cost and shortage of human resources. The first local elections will probably be held in 2006.

Instability along Chad's frontiers, particularly in the east, is having a negative effect on the economy. Thousands of Sudanese who have fled the conflict in Darfur are on Chadian territory. The United Nations High Commission for Refugees (UNHCR) is currently assisting the hundreds of thousands of Sudanese refugees living in eleven camps in the east of the country.

Chad is one of the most destitute states in sub-Saharan Africa. The poverty indicators are generally below African averages and it seems difficult to imagine that the Millennium Development Goals defined by the United Nations (UN) can be achieved by 2015. The country was ranked 167 out of 177 countries in the UN 2004 Human Development Index. According to the 1995/96 household survey (Ecosit I), poverty incidence is estimated at 58.7 per cent. This represents the percentage of households with annual expenditure lower than that necessary to cover minimum food and non-food needs. In 2004, 80 per cent of the country's 8.9 million inhabitants had less than a dollar a day to live on despite the strong increase in per capita GDP engendered by the oil boom. The boom has only benefited the populations of certain urban zones. The rural population, particularly in the south, has suffered from the effects of the drastic fall in world cotton prices. Poverty is more marked in the rural areas than in the urban areas, with particular concentration of poor households, estimated at 60 per cent, in the Biltine and Ouaddai regions. The rudimentary means of production in the rural areas, the hostile agroclimate, the poor condition, inadequacy and high cost of socio-economic infrastructure (water, electricity, transport, telecommunications and wastewater disposal) all contribute to making poverty worse. Moreover, the households headed by women (54 per cent of them) are more exposed to poverty.

The cost of electricity in Chad is among the highest in the world. Only 2 per cent of the population had access to electricity in 2003, compared with 1.1 per cent in 1993. The situation is the same for water, which is produced partly by the STEE. The STEE intends to increase its production capacity in N'Djamena in the very short term. A water and sewerage master plan, the Schéma directeur de l'eau et de l'assainissement (SDEA) constitutes the basis of the government's programme in this sector. It defines the action plans and their necessary financing for village, urban, semi-urban, pastoral and agricultural water supply and distribution up to the year 2020. This policy, which requires important financial resources, has not yet had any significant impact on the ground. Only 16 of the country's 84 urban agglomerations have running water. In 2004, 36 per cent of the population, compared with 27 per cent in 2000, had permanent access to drinking water. As a result, there is a great deal of disease, particularly in rural zones. In general, water resources are not adequately exploited and the problem of their availability remains to be resolved.

Education is one of the priority sectors, with a budget that has been constantly increasing since 2001. The Chadian education system has made quantitative progress thanks to application of the "education-training-employment" (EFE) strategy defined in 1990. The gross enrolment rate rose from 75.4 per cent in 2000/01 to 87.6 in 2003/04. Quality, on the other hand, has not followed, with high rates of years repeated in primary and secondary schools and a massive drop-out rate, which reached 9 per cent in 2001. The teacher-pupil ratio was estimated at 1 to 74 in the same year.

The number of pupils in secondary education has shown strong growth, rising from 45 000 in 1988/89 to 139 500 in 1999/2000, 29 400 (or 22 per cent) of whom were girls. In 2000/01, girls represented 23.1 per cent of the total number of pupils, representing a gross enrolment rate of 5.3 per cent, compared with 18.5 per cent for boys. The illiteracy rate was 62 per cent in 2000. In 2000/01, women represented 57 per cent of teachers.

The main constraints of the sector are: insufficient training possibilities, difficult teaching conditions, major gender and regional disparities, poor performance, an insufficiently qualified teaching body (particularly in community schools), unsuitable curricula and textbooks, and a deficient professionalisation of technical and vocational secondary education, and of higher education. The education system is also marked by the unsuitability of training to the needs of the market. The problem has been slightly alleviated by the oil boom insofar as vocational training in Chad and Cameroon has been backed by certain oil companies, thanks to which 6 181 Chadians were trained in welding, electrical work, automobile repair, safety, health and environmental protection in 2002. Some Chadians benefited from training after being recruited as engineers and senior technicians.

Health is another of the country's priority sectors and has seen its budget rise since 2001. The authorities are placing the emphasis on the development of quality services for basic health care. Some progress has been made in the area of access to health care, vaccination, and the fight against HIV/AIDS and sexually transmitted diseases (STDs). Today, 89 per cent of the health districts and 80 per cent of the health centres are operational, compared with 68 per cent in 1999. Chad has only four prefectoral hospitals – in Abéché, Moundou, Sarh and N'Djamena. The ten other delegations have district hospitals. Only 30 of a projected 49 of these are in operation and 407 out of 646 zones of responsibility are in activity.

A health centre that meets the required standards treats an average 17 000 patients per year instead of the 10 000 provided for by regulation. Certain health centres are run by first-aid workers, while others simply stay closed. The situation remains difficult for several reasons: health centres are understaffed, insufficient in number and poor in quality; personnel and resources are improperly distributed throughout the country; partnerships with the private sector are embryonic and; the bodies set up to combat epidemics are not very effective.

The rate of births assisted by qualified personnel is low but has nevertheless increased from 15 per cent in 1998 to 19.7 per cent in 2003 and 24 per cent today. The Diphtheria, Pertussis and Tetanus (DPT3) immunisation rate stood at 47 per cent in 2003, compared with 35 per cent in 1999. Progress has also been made in the fight against STDs. Life expectancy at birth, which was 46 years in 1994, was up to 47 years in 2000, compared with an African average of 51. The infant mortality rate was 105.8 per 1000 live births in 2001, compared to an African average of 76.4 per 1000. The maternal mortality rate was 827 per 100 000 live births, compared with an African average of 698. These figures, even if they show some improvement, remain a cause for concern. The gross mortality rate was 18.8 per 1000 in 2000. The principal diseases are malaria, acute respiratory disease, diarrhoea, conjunctivitis and HIV/AIDS, for which the prevalence rate varies from 5 to 12 per cent, depending on the region. HIV/AIDS particularly affects the 15-49 age group. At the end of 2003, 180 000 persons or 4.8 per cent of the adult population were affected. The arrival of thousands of Sudanese refugees can be expected to have a negative incidence on the prevalence rate.

The government is battling against HIV/AIDS through a national programme, the Programme national de lutte contre le SIDA (PNLS), which was drawn up in 1998. A reform of this programme should see it replaced by a national committee, the Comité national de lutte contre le SIDA (CNLS), which will report to the prime minister, and by sectoral and regional bodies. Priority is being given to prevention and to reducing the sanitary, social and economic impacts of HIV/AIDS in a multi-sectoral framework. There also exists a project for access to antiretroviral treatment by AIDS patients.

The scale of the AIDS pandemic has induced the government to re-evaluate its national health priorities. It is concentrating notably on the difficulties encountered by Chadian women, many of whom have not had access to education or appropriate health care. Nearly three-quarters of Chadian women between the ages of 15 and 49 have not been to school, 80 per cent were married as adolescents, and more than half had their first child before the age of 18. Knowledge of contraception methods and of how HIV/AIDS is transmitted has nevertheless improved. More than 300 000 condoms are currently sold each month in Chad, 15 per cent more than forecast at the start of the PNLS.

Congo Republic

key figures

• Land area, thousands of km²	342
• Population, thousands (2005)	3 999
• GDP per capita, \$ PPP valuation (2005)	1 298
• Life expectancy (2000-2005)	51.9
• Illiteracy rate (2005)	14.2

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/075316054601

Congo Republic

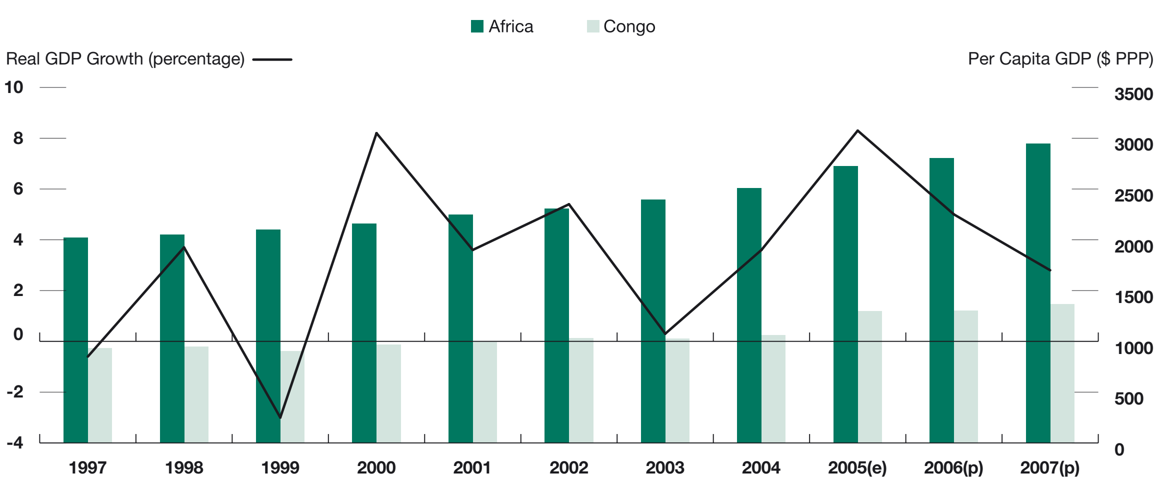
RECONSTRUCTION IS UNDERWAY in Congo after more than a decade of political instability and sporadic armed conflicts. The enormous damage wreaked by the civil war, ravaging the capital, Brazzaville, and the Pool region several times between 1997 and 2003 is compounded by the harmful effects of many years of poor public-resource management. The balance after the last outbreak of violence in 2003 is one of a country that is impoverished and heavily in debt, and the economic development of which is immensely hampered by inadequate and outdated infrastructure of all kinds and an important deficit in capacities.

Nevertheless, the country could, today, be served by an unprecedented opportunity. Among the oldest oil-producing countries in Africa, Congo benefits from a very favourable economic situation due to the rise of international crude-oil prices, translating into a spectacular increase in state revenues in 2005. Moreover, new reserves have been discovered, so oil production is expected to rise even more in 2006.

The high price of crude oil coupled with access to the HIPC initiative augurs well for the country's economy which nevertheless remains weak.

In addition, given the progress made in the transparency of oil-revenue management, the relations between Congo and international aid agencies have improved considerably: at the end of 2004, following the signing of the Poverty Reduction and Growth Facility (PRGF) programme with the International Monetary Fund (IMF), the Paris Club of lending nations cancelled a good part of Congo's debt, bringing the debt/GDP ratio down from more than

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

240 per cent in 2003 to less than 150 per cent at the end of 2004. Access to the Heavily Indebted Poor Countries (HIPC) initiative, originally scheduled for the end of 2005 but postponed to the beginning of 2006, leaves hope that additional resources will be available in the coming years. One of the government's priorities for 2005 was to re-establish the state's financial credibility in keeping with the commitments made to the donor community, notably to the IMF. A major portion of the additional resources has thus been used since December 2004 towards the payment of arrears of the external debt and the first stages of a settlement

of the social debt (wage arrears) and the trade debt (arrears to the state's suppliers). These payments were continued in October and December 2005.

Congo therefore has, today, all the means necessary, in terms of both financial and natural resources, to succeed in reorganising its public finances and reconstructing its social and economic fabric. The country must nonetheless take up three challenges that are weighing on its future. First, debt reduction is conditioned to the finalisation and strict application of the Poverty Reduction Strategy Paper (PRSP), notably in the priority sectors (health and education), for even if there is major progress in the management of revenues, notably oil revenues, much is left to be accomplished in the management of expenditure. Postponement of the decision point, originally timed for the end of 2005, testifies to the difficulty of this process. Second, Congo's economy is heavily dependent on the oil sector, which makes it fragile, especially given that production has already been predicted to decrease in 2007. Third, social and political stability remains extremely precarious: there are still rifts within the country, and social discontent is growing among the population, the majority of which is losing patience as it waits for the expected, but not forthcoming "positive fall-out from the oil revenues".

In general, Congo's economy experienced satisfactory growth in 2005 compared with 2004, with an increase in oil production (12.5 per cent) and growing production in non-oil sectors (4.2 per cent) despite a fall in the forestry sector. For the economy as a whole, the growth rate, which was 3.6 per cent in 2004, was expected to reach 8.4 per cent in 2005, and to fall to 5 per cent in 2006 and 2.8 per cent in 2007, due to the natural decline of oil production.

Recent Economic Developments

The Congolese economy has remained scarcely diversified and strongly dependent on oil. Since 1973, when the first oil field, Émeraude, was put into operation by Elf, the oil sector has been the foundation of the entire economy. In 2004, it amounted to 55 per cent of GDP and 95 per cent of exports. Most of Congo's oil production, which stands among the oldest in the continent, takes place offshore. The major operators in the country are Total, ENI and Zetah.

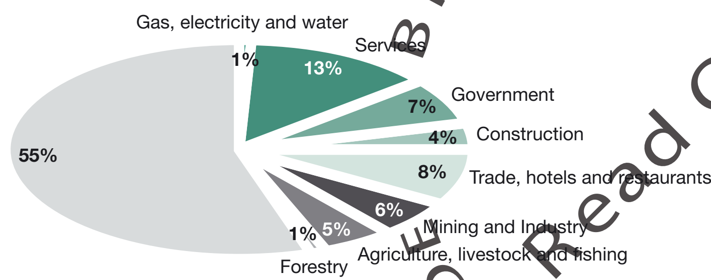
The contribution of the sector to growth in 2004 was limited because the expected increase in production was lower than predicted, rising by a mere 0.4 per cent from 2003 with an output of 82 million barrels. In contrast, the good performance of the onshore oil field of Mboundi, the positive effects of which were already expected for 2004, contributed to raising production by 12.5 per cent in 2005. In December, however, production was estimated at 92 million barrels, 3 million barrels short of the year's forecasts.

Production should rise considerably in 2006, thanks to the development of new oil fields and the new momentum given to investor confidence by the soaring crude-oil prices. The oil companies thus financed many research and exploration projects. Among these are Total, ENI and Murphy's ultra-deep offshore drilling with the use of new technology, Zetah's seismic field survey in the Mboundi site and its exploration of the Noumbi permit area, and Chevron's exploration of a third well in the K/AIMI Border Unit (a common interest area between Congo and Angola). Total,[1] Zetah and ENI also directed investments to development and exploitation. Moreover, they have tended to increase production while limiting the natural decline of the older fields. Production is hence projected by the authorities to increase by about 15 per cent in 2006.

For the reform of the oil sector, 2005 was a crucial year. In parallel to the application of the Extractive Industries Transparency Initiative (EITI), Congo's state oil company, the *Société nationale des pétroles du Congo* (SNPC), went through major restructuring towards refocusing its activities upstream from the oil sector. In the course of the year, two different companies were set up: the *Société nationale de recherche et d'exploration pétrolière* (Sonarep), following the liquidation of

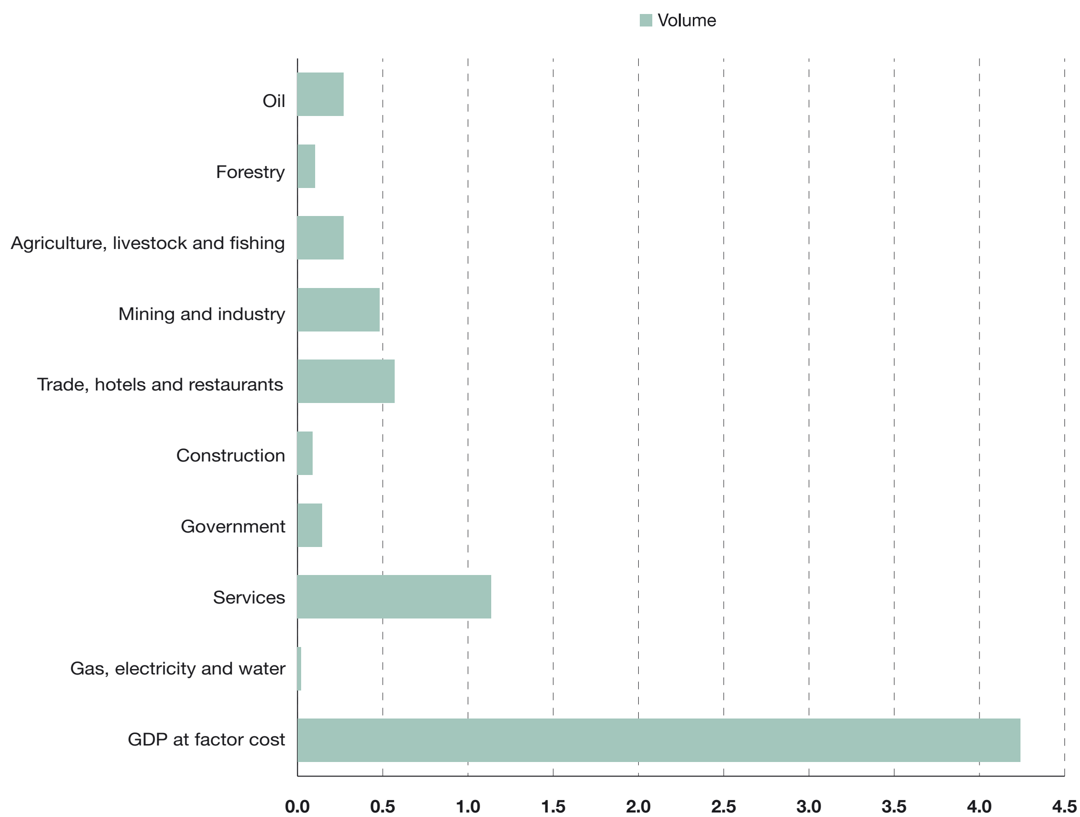
1. Total has in particular initiated development projects in the Moho Bilondo field, and should start production in 2008.

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

Congorep for exploitation and research, which is scheduled to start production in 2006; and Cotrade, for marketing crude oil. The downstream sector (distribution of the refined product), which was formerly managed in part by Hydrocongo – a company currently being liquidated – has been entirely taken over by a private consortium.

Timber, the leading non-oil product and second in exports, represents a major resource for the country's economy, notably in its capacity to create jobs. Forestry production, after strong expansion between 2001 and 2003, has slowed down considerably since 2004 (0.3 per cent growth), largely due to declining log production (0.2 per cent). An increase in the production of semi-finished wood products (+10 per cent) only partially compensates for this shortfall. In 2004, the forestry sector amounted to just 1 per cent of GDP, and its contribution to growth had dropped slightly since 2003. This trend worsened in 2005, with a 10 per cent drop in wood production involving both logging (3.2 per cent) and wood products (34 per cent). Moreover, production of eucalyptus billets, interrupted in 2004 because the monopoly company (now being privatised) ran into difficulties, did not start up again in 2005 as planned.

Several factors explain this negative performance. First, the disrepair of the infrastructure makes transporting products to the port of Pointe Noire very difficult. Companies, located mainly in the north tend to send their products out on Cameroonian roads to the port of Douala. This increases transport costs, for the distance is longer and the price of fuel is higher in Cameroon than in Congo, where fuel is subsidised.

Furthermore, the sector underwent greater tax pressure with the application of the forestry code of 2003, intended to align the country with the tax rate common to the Economic and Monetary Community of Central Africa (CEMAC). This tax hike has turned out to be problematic, given the constriction the sector is undergoing, and has been the reason why many companies have not yet started production, even though they hold new exploitation permits. The code further stipulates that companies will have to process 85 per cent of their production in Congo and export no more than 15 per cent of their logs. The goal is to promote job creation and improve management of the forest ecosystem. The implementation rate having amounted to 49 per cent for 2005, the difference is subject to additional tax. Certain companies, however, preferred to produce less, rather than to be subjected to more taxes.

After wood, the sugar industry is the next major potential resource for the Congolese economy, especially in terms of jobs. Not very competitive internationally, production is mainly intended for the domestic market, rather than for export. This potential remains largely unexploited, however, mainly because of the absence of sugar refining in the secondary sector. Production falls under the monopoly of a single company, Saris Congo. In 2004, thanks to the increase in farmland obtained in the framework of the ten-year reflationary agricultural policy (supported by the Food and Agriculture Organisation [FAO]), production increased by 8.2 per cent, up from 59.4 thousand tonnes to 64.3 thousand tonnes. However, a significant 4.8 per cent fall occurred in 2005, mainly related to the difficulties in supplying the Brazzaville market and providing fertilizers, both of these related to the lack of adequate transport infrastructure.

In total, the agribusiness sector, ignored for many years by public policy, is developing largely under its potential. In a country where the climate and the quality of soil are particularly favourable for agriculture, it amounted to only 5 per cent of GDP in 2004. This situation also prevails in the food-crop sector and contributes to the continuing existence of pockets of food insecurity. In this respect, the *Programme national de sécurité alimentaire* (national food-security programme [PNSA]) will be launched in 2006 with the active support of the FAO, in keeping with the intermediate PRSP priority of developing the agricultural sector.

In the secondary sector, construction grew substantially, especially through the many basic-infrastructure rehabilitation and reconstruction initiatives. In the framework of the "accelerated municipalisation" policy, many public-investment projects are carried out each year in different places (Pointe Noire in 2004, Impfondo in 2005) in conjunction with the decentralised celebration of Congo's national independence day, 15 August. Beyond the short-term demand and employment benefits, however, the long-term impact remains unclear, particularly because the integration of these projects into local development plans, and their maintenance and upkeep have not been addressed.

In services, as in agriculture, the informal sector is of overwhelming importance. A 2003 survey in Brazzaville showed that it was predominant in trade, restaurant services and construction. As services' contribution to growth has increased since 2004, it can be assumed that its veritable engine is the informal sector. Growth can further be explained by the benefits for trade and restaurants from rising income generally, as well as from sporting and political events in Brazzaville and Pointe Noire. In 2005, the transport and telecommunications sectors also enjoyed new investments by the autonomous port of Pointe Noire, the Congo-Ocean Railway (COR) and the mobile-telephony companies, which led to increased services. Non-market services could also benefit from investments made in the social sectors.

Oil was again the major engine of growth in 2005, after a significant slowdown in 2003. The contribution of wood and timber has declined and secondary industry is mostly supported by the dynamic performance of public works and private investment, particularly in the oil sector.

These developments contributed to increasing per capita income in 2005 and to the considerable stimulation of private consumption, which saw a real 5 per cent increase over 2004. Growth in 2005 was also reinforced by continued significant improvement in the terms of trade since 2004. This progress can be explained by the rise in the prices of oil and of tropical wood, as well as by the appreciation of the euro against the dollar. Consequently, the trade-balance outcome and, more generally, the balance-of-payments outcome have improved.

Even though 2005 ended with a spectacular budget surplus, the situation did not translate into negative pressure on demand; the surplus of receipts over expenditures can in fact be largely attributed to a strong rise in oil revenue. These trends should continue in 2006 and 2007.

The strong positive contribution of external demand to demand composition explains the fall in the share of investments and domestic consumption as a percentage of GDP. This trend should continue in 2006, with the predicted increase in oil production, then be reversed in 2007, with significant regrowth in the other domestic sectors.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**22.2**	**23.3**	**25.7**	**24.2**	**19.0**	**18.6**	**20.4**
Public	3.4	8.6	6.5	7.0	5.7	5.7	6.5
Private	18.8	14.7	19.2	17.2	13.3	12.9	13.9
Consumption	**62.3**	**50.0**	**48.7**	**48.6**	**37.4**	**36.6**	**39.3**
Public	20.9	18.4	17.0	16.0	12.3	12.2	13.3
Private	41.4	31.6	31.7	32.6	25.1	24.4	26.0
External sector	**15.5**	**26.7**	**25.6**	**27.2**	**43.6**	**44.8**	**40.3**
Exports	75.6	80.7	79.3	84.5	87.8	86.3	83.5
Imports	60.2	54.0	53.7	57.3	44.2	41.5	43.2

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Macroeconomic Policies

Fiscal Policy

Congo belongs to the CEMAC, part of the Franc Area. Monetary policy is shared among all member countries. The country is therefore committed to apply both a certain fiscal discipline and the convergence criteria. In 2005, growth in Congo was probably the fastest in the region after Chad. In contrast to 2004, when only fiscal-discipline convergence criterion had been respected, inflation in 2005 remained under 3 per cent despite inflationary pressures from the rise in the oil price. That year, for the first time, the country also complied with the criterion of non-accumulation of arrears (internal and external). On the other hand, it was not able to apply the criterion for the ratio of public-debt stock over GDP, still largely above 70 per cent.

Since the launch of the "New Hope" programme at the end of 2002, management of public finances has improved considerably thanks to the leeway provided by the rise in the price of oil and to the more rigorous management of oil revenues. Continuing structural reforms had a beneficial effect on the whole of the revenue system.

Although Congo is the country with the highest tax rate in the CEMAC (44 per cent of GDP in 2005), wages remain low outside the oil sector (6.7 per cent of GDP in 2005). Oil accounted for 70 per cent of total government revenue on average in the 1997-2003 period. This dependence is a source of vulnerability and over the past few years the government has sought to reinforce its system of revenues, which have increased regularly since 1997 with only two exceptions: 1998 and 2003, which saw the return of hostilities and poor performance of the oil industry.

In 2004, the rise in total revenue was 21 per cent over 2003, with an implementation rate of 96 per cent. Oil revenue climbed by 25.8 per cent and non-oil revenue by 14 per cent thanks to a series of structural reforms, which have already started to clear up the system even though they are being implemented progressively.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total Revenue and grants[a]	**28.6**	**27.4**	**29.6**	**32.5**	**39.3**	**39.1**	**37.8**
Tax revenue	5.8	7.7	8.6	8.7	6.7	6.5	6.7
Oil revenue	22.7	19.5	20.6	23.5	32.4	32.2	30.8
Total expenditure and net lending[a]	**37.5**	**35.5**	**29.2**	**28.6**	**19.9**	**18.8**	**20.6**
Current expenditure	34.1	26.8	22.6	21.6	14.2	13.1	14.1
Excluding interest	*20.9*	*18.4*	*17.0*	*16.0*	*12.1*	*11.9*	*13.0*
Wages and salaries	7.7	5.7	5.8	5.4	4.2	4.2	4.6
Interest	9.2	3.7	2.4	2.4	1.8	1.8	1.9
Interest on the public debt	13.1	8.4	5.6	5.6	2.1	1.2	1.1
Capital expenditure	3.4	8.6	6.5	7.0	5.7	5.7	6.5
Primary balance	**4.2**	**0.3**	**6.0**	**9.5**	**21.6**	**21.4**	**18.3**
Overall balance	**-8.9**	**-8.1**	**0.4**	**3.9**	**19.4**	**20.2**	**17.2**

a. Only major items are reported.
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Although it remains the least taxed in central Africa, the forestry sector underwent an increase in tax rates, up from 4.5 per cent of the free-on-board (FOB) value in 2002 to 8 per cent in 2003, thus contributing significantly to this outcome. There was no increase in 2004, but the medium-term goal is to be aligned with the CEMAC tax rate, in the range of 15-to-17 per cent of the FOB value. Moreover, reform measures in the customs sector have led to a 14.4 per cent increase in customs revenue. The most spectacular outcome was obtained in the administrative services: following the joint decrees of the ministries in charge of the different services, all revenue is henceforth required to be added to the treasury funds before redistribution to the ministries. This operation has clearly improved fiscal control and led to a 97.2 per cent rise in service revenues.

In expenditure, progress in management remains limited and the situation fragile. The Government of Congo has accumulated major deficits in the past, caused by a surplus of expenditure over revenue, leading to the accumulation of arrears. To limit these expenditures and finance infrastructure-reconstruction projects, the government constrained wages, now frozen since 1994 (after a 12-to-25 per cent reduction). The GDP share of wages has declined from 9 per cent in 1998 to 5.8 per cent in 2003 and 4.2 per cent in 2005. Current expenditure thus remains vastly insufficient compared with the country's needs.

In 2004, current expenditure grew 5.7 per cent from the preceding year, with an increase in total wages of 2.2 per cent (due to new recruitment in the education and health sectors) and a 2.6 per cent rise in other current expenditure. As for investment expenditure, after the drop in 2003, it rose by 19 per cent in 2004, and its implementation rate, over domestic financing, was 93 per cent. Real public investment went primarily to public works, notably to infrastructure.

Despite this growth in total expenditure, fiscal year 2004 ended with a surplus primary balance, confirming the country's positive trend. This is exclusively explained, however, by the growth in oil revenue. The primary balance, excluding oil revenue, is structurally very negative, reflecting the persistent economic dependence on the oil sector. The overall balance has also shown positive signs since 2003, with a significant surplus in 2004. This has made it possible for Congo to start addressing its external debt and regularising its position with regard to public donors.

The positive trend continued in 2005 thanks to the spectacular increase in oil revenue, largely offsetting the weak growth in wage-related expenditure (5.8 per cent) and in capital expenditure (around 20 per cent). On the other hand, non-oil revenue, despite a 3.5 per cent rise, remains inferior to projections. A non-budgeted surplus of 351.2 billion CFA francs, equivalent to a 69 per cent increase from 2004, as well as non-programmed spending led the government to call up a supplementary-estimate amendment in October 2005 and to draft a new budget law.

In conclusion, the fiscal year 2005 ended with a budget surplus (commitment basis, excluding grants) of nearly 600 billion CFA francs, the equivalent of 19.4 per cent of GDP. The preceding year, surplus was around 100 billion CFA francs, corresponding to 3.9 per cent of GDP. As in 2004, and in agreement with the IMF, the surplus revenue has been "sterilised", that is, primarily earmarked for the financing of domestic and external debt.

Management of oil revenue continues to improve in the country. Congo's adherence to the EITI includes the certification of revenue, regular audits of the SNPC and the *Congolaise de Raffinage* (CORAF, Congo's sole refinery), as well as biannual reports to the government from each oil company operating in the country. In addition, since 2003, the SNPC no longer has the right to incur a debt or make payments in the government's name; it is also obliged to transfer all its revenue to the public treasury within eight days.

Even though the sector upstream of the oil industry has been remarkably reformed, the downstream sector still remains problematic. Use of the non-budgeted oil surplus has been the subject of animated controversy both in parliament and among civil society. Already in 2004, the non-convocation of a supplementary estimate had been highly contested, even if the former minister of finance had provided explanations regarding the use of the surplus 136.6 billion CFA francs, earmarked to fill the gap between revenue and expenditure, and to settle the arrears on external and domestic debt. In 2005, the surplus was much greater, and debates regarding its use were increasingly stormy. The government was especially challenged on its decision not to devote at least part of the surplus to increasing civil servants' wages. This situation is at the core of new social tensions and general discontent.

As for expenditure, most of the questions being raised deal with the transparency and effective use of investments. The donor community, in particular, is concerned, as 2005 should have been the first year of application of the interim PRSP, with significant increase in current expenditure and investment in social sectors. Nonetheless, although the 2005 budget breakdown at the end of September, revealed a nearly 100 per cent implementation rate for investments from capital, positive repercussions in the targeted sectors have yet to be seen. This situation raises doubts about the government's capacity for a rigorous implementation of the final PRSP, all the more so that the latter goes into far greater detail than the interim version.

The 2006 budget, set jointly with the IMF, reflects the priorities already laid out in the 2005 budget and included in the interim PRSP, namely to fight poverty and to concentrate expenditure in the social sectors. As in the 2005 budget, the basic assumptions used for projections of state resources in 2006 remain conservative because of the highly volatile price of oil. The average annual reference price per barrel is in the $56 to $60 range, cut down by a prudence factor and the reduction normally applied to Congolese crude oil. Based on these assumptions, a rise in revenue and expenditure can be expected. Reflecting the priorities of the interim PRSP, a nominal 30 per cent rise in capital expenditure is foreseen. The decision point was reached in March 2006, but strict execution of the 2006 budget, as well as the drafting of the final PRSP will be essential in attaining the PRSP achievement point, the date of which depends on a positive assessment of the execution of the final PRSP.

Over the years, Congo has accumulated a significant domestic debt amounting to 531 billion CFA francs at the end of 2004, or 13 per cent of total debt inventory, and 21 per cent of GDP. The positive repercussions of the increase in oil production, in conjunction with that of oil prices, have allowed the country to start tackling the problem, considered as a priority by the IMF. Moreover, in 2004, the World Bank promised to grant Congo a $30 million structural-support grant to facilitate the implementation of a strategy to deal with this debt.

Domestic debt includes the social debt (24 months of unpaid civil-servant wages, and the pensions and rights of the employees of liquidated companies) and the debt to economic players, in particular the state's suppliers. Although the decision to start settling the domestic debt was made in December 2003, payment of the arrears did not begin until December 2004, once authentification of the social debt had been completed by the Congolese amortisation fund. Every month, payment in arrears costs the state about 10 billion CFA francs. As for the commercial debt, it was to be the subject of a settlement plan drafted and approved at the end of 2005. Audit of this part of the domestic debt having been completed, the means to address it should be imminent. Debts under 10 million CFA francs are to be paid entirely. Those superior to this amount will be subjected to a 25 to 66 per cent rebate, depending on the terms of payment chosen by the creditor.

Monetary Policy

The good macroeconomic performance also brought about a consolidation of the monetary situation in 2005. Three different impacts were recorded: improvement in the external position (net foreign assets increased by 550.7 per cent) translated into a major increase in the official reserves; net loan claims to the state have strongly decreased (116.9 per cent), significantly improving the cash position; and credit to the economy has increased by 6.9 per cent in a context of excessive bank liquidity, not to mention the 24.7 per cent increase in money supply from its 2004 level. Despite the inflationary pressures generated by the rise in oil prices and by increased household consumption, the inflation rate remains moderate, at 2.9 per cent, less than the rate for 2004 (3.6 per cent). This is due to the fall in food prices. Inflation should remain identical in 2006 and then drop in 2007, resting at around 2.4 per cent.

External Position

Oil remains Congo's primary export at 94.2 per cent of its value in 2005, making Congo the fourth producer of black gold in sub-Saharan Africa. Its main clients are the United States and China. The latter has recently become its primary oil-importing trade partner. The main supplier of imported products is France.

The volume of crude exports, which followed a negative trend until 2004, moved from 10.6 million tonnes to 12.3 million tonnes in 2005, a 16 per cent increase. Exports for 2006 were equally forecast to rise, with a projected increase in production. As for the export of refined petroleum products, mostly heavy fuel, it has continued to drop since 2003, due mainly to problems encountered by the CORAF. It has increased in value, however, because of the rising price of oil. Nonetheless, even the volume of exports should go up in 2006.

After having risen by 13 per cent between 2003 and 2004, the volume of timber exports fell in 2005, especially in trunks (-22 per cent), due to a drop in production. Exports of eucalyptus logs doubled from

Table 3 - Current Account (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade Balance	43.4	51.1	50.2	53.4	63.4	63.4	59.9
Exports of goods (f.o.b.)	71.3	74.5	72.9	78.2	83.3	82.1	79.2
Imports of goods (f.o.b.)	-27.9	-23.4	-22.7	-24.8	-19.9	-18.7	-19.3
Services	-27.9	-24.4	-24.6	-26.2			
Factor income	-28.5	-27.1	-24.8	-25.1			
Current transfers	0.1	0.1	0.2	0.2			
Current account balance	**-12.9**	**-0.3**	**1.0**	**2.3**			

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

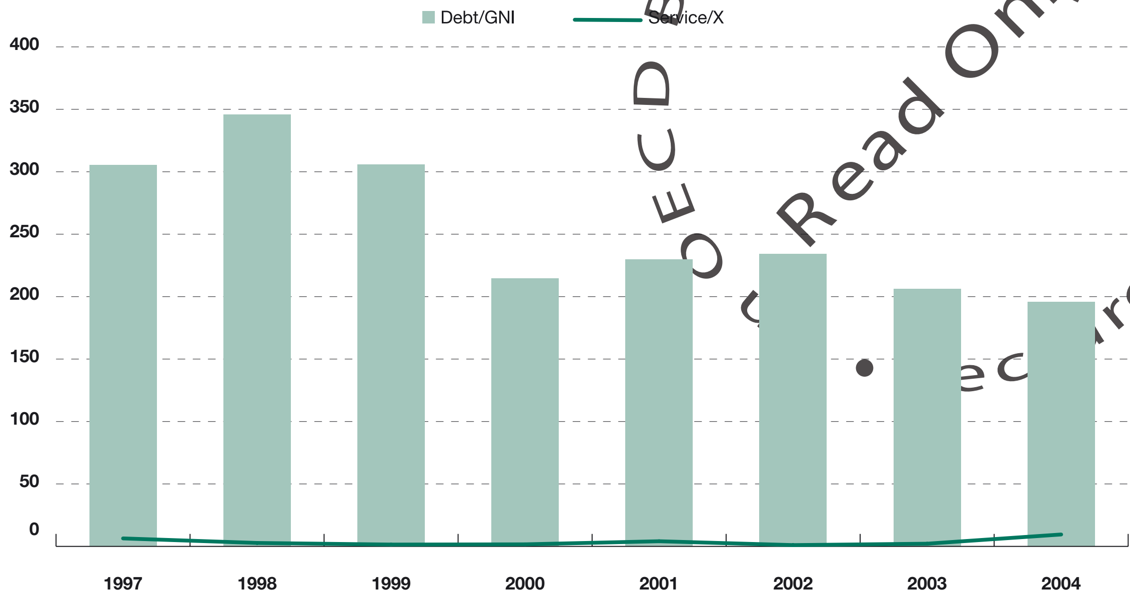
2004 based on drawn-down stocks, following the fall in 2003 caused by lost production. However, the real recovery of exports is expected in 2006 with the return of production.

In 2005, total non-oil exports will have been well below expectations, constituting just 4.6 per cent of total exports, against 8.2 per cent in 2004. The trade balance for the year was nevertheless positive, featuring an increase of 40 per cent from 2004. This positive result is due to a 53.2 per cent rise in total exports, even if imports also rose by 56 per cent. As a result, the current-account balance improved significantly, following a solid trend despite serious deterioration in the balance of services and revenues. The total outcome of the balance of payments went from a deficit of 90.9 billion CFA francs in 2004 to a surplus of 157.9 billion CFA francs in 2005.

The situation of Congo's debt in 2004 has therefore clearly improved, thanks to a more favourable attitude of foreign bilateral and multilateral creditors. The recent changes have allowed the country to come out of an unsustainable situation, which made it one of the most indebted states in the world. This was possible thanks to the PRGF approval in December 2004, which led to the reopening of discussions between Congo and the donor community. The success of the recent programmes implemented with the IMF (and the World Bank as of 2001) has also given new momentum to relations with the donors, which was materialised in 2004 at a meeting of the Paris Club of lending nations and at a round table organised by the World Bank. It was on this occasion that the country was granted financial facilities, conditioned on continuing good relations with the IMF. To obtain the expected cancellation and rescheduling of arrears ($1 570 million cancelled and $1 450 million rescheduled), Congo committed itself to three points: first, to stop incurring debts with oil as a guarantee and make sure that old debts are being settled; second, to guarantee regular service of its non-reschedulable bilateral debt; third, to find a fast and effective solution to the arrears question by taking advantage of the new oil revenues.

The public-debt/GDP ratio was also dramatically reduced, going from 243 per cent in 2003 to 148.6 per cent in 2004 and to 104.4 per cent in 2005. The country's public indebtedness at the end of 2004 amounted to 3 945 billion CFA francs, 86.5 per cent of which was external debt. The positive evolution of indebtedness at the end of 2004 was mostly due to settlement of aggregate arrears: these had in effect gone from 70 per cent of the total external debt at the end of 2003 to 52 per cent at the end of 2004. The composition of total debt was also modified: the share of loans claimed by the Paris Club was significantly reduced: from 58 per cent in 2003 to 47.6 per cent in 2004. Other multilateral agencies hold 7 per cent. Private debt (bank debt, speculative funds, guaranteed debt and various creditors) henceforth constitutes 38 per cent of the total debt, but remains problematic because it can be neither rescheduled nor cancelled. One-third of this debt involves creditors in litigation (due to arrears in payment) who have legally won the possibility of acquiring assets of the country. In addition, part of the commercial debt concerns loans on the future production of oil (guaranteed debt), a former practice that was stopped in 2003 as one of the conditionalities of IMF-backed programmes.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

New debt-reduction measures were conditioned on reaching the HIPC Initiative decision point, originally planned for December 2005 and postponed to 2006 following pressures from civil society to improve transparency in the management of oil revenue. Access to the initiative will considerably affect the evolution of the external debt. The decision would in fact lead to the cancellation of nearly 70 per cent of the country's external debt, while the Paris Club lending nations have also committed to cancelling nearly 90 per cent of the debt (Cologne terms) once the Republic of Congo has attained the achievement point.

Structural Issues

Recent Developments

Having concentrated its efforts on structural-reform matters – transparency and good management of public finances – the government has somewhat neglected issues such as the privatisation process and improvement of the business environment. There has only been progress in the hydroelectric-generation sector, with the completion of construction work on the Imboulou dam. For 2006, the government is planning to privatise the CORAF.

The privatisation process in Congo, begun in 1987 with World Bank backing, is moving ahead, albeit very slowly. On the eve of the first conflict in 1991, one-third of the public enterprises had moved into the hands of private operators. This promising start suffered a paralyzing blow with the civil war, and it was not revived until 2002 with the liquidation (still incomplete) of Hydrocongo, the company in charge of fuel distribution and marketing. The national sugar industry was sold to a French group (SOMDIA) and the hotel Mvoumvou was taken over by a Congolese company. Nonetheless, key enterprises still need to be privatised to enable the economic development of the country and the fight against poverty. These key enterprises are public services: electricity, water and rail transport. The situation has remained blocked at the bidding stage. Private operators have asked that the existing infrastructure should be put back in working order before the transfer, but such rehabilitation has never been undertaken for lack of resources. In May 2005, an emergency programme was set up by the World Bank to resume the privatisation of the water and electricity utilities. The cabinet reshuffle at the beginning of the year, however, delayed the process. As a result, the privatisation of the national water board, the *Société nationale de distribution de l'eau* (SNDE) and that of the national utilities company, the *Société nationale d'électricité* (SNE) are at the same stage as they were in 2004.

The government recently cancelled the decree attributing ownership of the SNDE to the British company Biwater, which proposed an unscheduled increase in the price per cubic metre of water. The process has since been stalled.

One billion CFA francs were made available for the SNE to install new electricity-consumption meters in Brazzaville. Since the civil war, private consumers had paid a fixed monthly fee of 15 000 CFA francs, regardless of consumption. This engendered serious losses for the SNE, already in trouble because of the disrepair of their equipment. Since September 2005, with the beginning of meter installation, consumers are expected to pay according to their consumption. The government was thus able to comply with IMF indications by decreasing subsidies granted to the SNE and by starting reorganisation of the company. The rates were not differentiated according to income, however, which risks penalising the poorest part of the population for access to services.

In spite of its exceptional hydroelectric potential, electricity supply in Congo is vastly insufficient to meet the consumption needs of about 125 MW. Today, the country has two hydroelectric dams, Moukoukoulou and Djoué, with installed capacities of 74 MW and 15 MW respectively. However, this represents only 3.5 per cent of the exploitable potential and only 44 and 47 per cent of their respective capacities. In the same vein, the gas-fired power plant Djeno, with a 25 MW installed capacity, only uses 37 per cent of its potential. Generation from these power plants is therefore insufficient to meet internal demand. As a result, there is inefficient distribution of the service to the population, aggravated by the antiquated infrastructure of the SNE and considerable dependence on imports from Kinshasa. Although national generation rose slightly from 2004, imports also followed step. Furthermore, the rise in the price of oil also trickled down to raise the price of electricity imports significantly. Payments to Kinshasa's national utilities company, the *Société nationale d'électricité* (SNEL) were consequently more onerous, partly explaining the continuation of subsidies for the SNE.

In this context, access to services remains highly uneven, in particular between urban areas, where there are more than 95 000 subscribers, and rural areas, where they barely reach 5 300. There are measures, nonetheless, that could improve access to electricity and even make the country self-sufficient: privatisation of the SNE, commissioning the extremely high-tension (EHT) lines connected to the new Imboulou dam (which will have an installed capacity of 120 MW) planned for 2009 or construction of the Brazzaville 32 MW thermal power station, for instance. Otherwise, two other hydroelectric dams are being built: Li Ouesso in the extreme north of the country and Sounda in the south.

The privatisation process is also stalled in the telecommunications sector, owing to the absence of a redundancy programme to make it possible to absorb the cost of the very large number of lay-offs that followed the dissolution of the national bureau of postal and telecommunications services, the *Office national des postes et télécommunications* (ONTP), and its division into two companies: Sotelco, a public limited company, 100 per cent of the capital of which is owned by the state pending its opening to new shareholders, and Sopeco, which remains public. An assessment in view of this opening as well as an organisational audit was ordered for Sotelco, whose management had undertaken major job losses. The government's lack of determination to face the social costs engendered by privatisation in terms of lay-offs and compensation seems to be one of the reasons of the general delay in the process.

The financial sector, the first to be restructured and privatised, met with major difficulties, following which it had to be once again reorganised. Two banks were at the centre of the crisis: La Congolaise de Banque and Cofipa, the latter of which had to be recapitalised by the state, which previously had to negotiate with the IMF to allow it to grant public subsidies. Following this episode, which led to a new privatisation, an agreement was reached between the two banks in June 2005 for systematic information sharing on questionable loan claims. A new bank, La Banque de l'Habitat, with mainly Tunisian capital but partly remaining public, should open its doors in 2006, bringing the number of banks in the country to five. The federation of Congolese mutual savings and credit banks, *Mutuelles congolaises d'épargne et de crédit* (MUCODEC), in the microfinance sector, can also be added to the list.

The development of the private sector remains hindered by a business environment that is still poor, owing to the exclusionary effects of oil on the other sectors of activity and to the lack of transparency in business management. The almost systematic collusion in the procurement contracts since the end of the war with de facto ratification by the market commission has also been damaging. This practice offers numerous opportunities for misappropriation and over-invoicing. Official calls for tender are only applied to operations involving more than 500 million CFA francs and are managed by the general delegation for major works, the *Délégation Générale des Grands Travaux*. The judicial system often falters, and corruption is still seen as endemic: in 2005, the international non-governmental organisation devoted to combating corruption, Transparency International, ranked Congo 130 out of 158 countries in terms of corruption. It is against this background that the court of accounts and budgetary discipline, the *Cour des comptes et de discipline budgétaire*, created by the Constitution and approved in 2002, was set up in March 2005. The development of the private sector thus remains synonymous with the informalisation of the economy.

Transport Infrastructure

Transport infrastructure in Congo is among the worst in the region. Its continuous deterioration since the beginning of the 1990s, caused by almost total lack of maintenance, was severely worsened by the repeated conflicts. Yet Congo benefits from a very favourable geographic situation: numerous inland waterways, a coastal zone featuring the only deep-sea port in the Gulf of Guinea, and four borders. This enormous potential, which could make it a key transit country in the region with consequent benefits to its economy, remains completely unexploited. This diagnosis applies to every mode of transport in the country – roads, railways, maritime and inland navigation, and air travel featuring two international airports – except, in part, the maritime sub-sector.

The government has nevertheless announced its priority for the national transport plan, the *Plan national de transport* (PNT), approved at the end of 2005: to rehabilitate all transport infrastructure in order to guarantee minimum service for the movement of persons and adequate service for the transport of goods. These measures are meant as much to serve the diversification of the economy as to permit reduction of dependence on the oil sector.

The link between the administrative capital, Brazzaville, and the economic capital, Pointe Noire, which is a vital axis of the Congolese economy, is crucial. Government efforts, as well as co-operation agreements with international partners in the transport sector, are focused in particular on its development. The Pointe Noire seaport, autonomous since 2000, through which the totality of oil exports transits (85 per cent of all total imports and exports), is today nearly cut off from the rest of the country (except by air) because of the disastrous condition of the inland infrastructure – road and rail. The great difficulty in moving goods towards the port, notably wood from the north of the country, causes enormous losses among all economic operators.

The road network is in such terrible condition that it takes between 10 and 17 hours to drive the barely 68 kilometres between Brazzaville and Kinkala. Degradation is generalised on the national road network, which comprises 17 289 kilometres in total, only 5 per cent of which (around 800 kilometres) are paved. The rest includes the secondary earth-road network called "rural service roads", greatly deteriorated by the strong seasonal rains and the transport of heavy, often excessive, cargo. The inadequacy of the road network puts the whole country in an almost completely land-locked situation, except for part of the north, where the many rivers remain navigable six to seven months a year. The main roads are vitally important to the forestry companies in the north of the country and the government has asked the forestry-industries association, the *Groupement d'entreprises forestières*, to contribute to road construction and maintenance. Work started in 2003 but has since been interrupted because the companies that prefinanced the work are waiting to be reimbursed.

The forecast public investment will thus be concentrated on the rehabilitation and/or construction of the Pointe Noire-Brazzaville-Ouesso backbone (the current national roads RN 1 and RN 2), onto which the rest of the network will be grafted. The sum intended for all the roads is in the order of 676 billion CFA francs, almost 69 per cent of the total investment planned by the PNT. This amounts to a disbursement of nearly 65 billion CFA francs per year, which will be partially covered by external aid.

An agreement was concluded with the European Union (EU) in December 2005 for the financing of a first section of the RN 1, Brazzaville-Kinkala, for a price tag of 31 billion CFA francs. An international call for tender was issued and work should begin in June 2006, with an expected completion deadline of 24 months. The Brazzaville-Kinkala link could thus be finished in 2008. The EU required, as part of the conditions at the signing of the convention, the establishment of a national transport plan and the institution of a road fund. The latter, which will be replenished up to 132 billion CFA francs, 54 billion of which in the first five years, will be directed towards maintenance work on the whole network.

Railways, the only means of land transport that connects the capital and the Pointe Noire seaport, are operational but often under attack from rebels in the Pool region. The situation not only presents a security problem for passengers, it translates into cargo storing in Pointe Noire while containers remain empty in Brazzaville. All of this produces considerable costs for the economic operators.

In consequence, a noticeable drop in demand for railway transport is observed, as much for passengers as for goods. Between 1992 and 2004, the annual transport of goods dropped by 33 per cent, peaking at 92 per cent during the war years, while passenger travel fell by 80 per cent, with a 97 per cent peak in 1999.

To pull Congolese railways out of this impasse, the authorities plan to privatise the exploitation of the COR, which was also in fact a condition for Congo to access the HIPC initiative. In 2000, the government produced a series ordinances concerning the division of the *Agence trans-congolaise des communications* (ATC) and the establishment of three public institutions: the autonomous port of Pointe Noire, the COR, and the autonomous port of Brazzaville with the secondary ports.

In agreement with the World Bank, which is to give its approval at each stage, the COR was then franchised for 25 years. In 2001, the World Bank made emergency credit available for rehabilitation of the equipment, but the work was only partially completed. Following the call for tender, two candidates were short-listed: the Congo Rail consortium (SNCC) and the South African consortium Sheltam Mvela. After long negotiations on the price of the franchise, only the South African consortium was left. The government's final decision should be rendered shortly.

The sum of investment in the railway sector is estimated in the PNT to amount to 106 billion CFA francs (11 per cent of transport investments). The franchisee will assume half of this amount, while the rest will be shared between the state and regional contributions. The international donors have committed to supporting the franchising process of COR with a contribution of €35 million to the initial-investment programme.

The inland-waterway sub-sector represents important potential in the country, in particular for the development of internal and external trade. It ensures connection to Central Africa and the Democratic Republic of Congo (DRC) and offers the possibility of connecting to Cameroon and Gabon. It is the privileged means of transport for goods coming from the north, notably wood. Indeed, the northern part of the river Congo makes it possible to ship heavy goods to Brazzaville's riverside port, known as the Beach. The Beach suffers, however, from serious congestion, making transit and mooring difficult. Such a situation, which affects all the ports in the country, is the consequence of poor financing and maintenance of the facilities.

The PNT plans to assign 9 per cent of its resources for inland navigation, 90 per cent of which will be assumed by the state. Activities include dredging, the rehabilitation of port equipment, and the renewal of facilities and services.

Political and Social Context

The gradual consolidation of peace was marked by two events in 2005, which also highlighted its ambiguities. On the one hand, in August, at the end of a three-week trial, the criminal court of Brazzaville acquitted fifteen police and military officers accused of the 1999 disappearance of 353 Congolese at the Beach, Brazzaville's riverside port. These were persons returning from the DRC, where they had fled the war. In the absence of guilty parties, the state was required to compensate the families of 86 of the missing. On the other hand, former Prime Minister Bernard Kolelas, sentenced to death in absence in 2000 for war crimes, was authorised by the head of state to return to Congo from exile, covered by an amnesty decree. Reconciliation with this emblematic figure of the political opposition, head of the *Mouvement congolais pour la démocratie et le développement intégral* (MCDDI), could contribute to political appeasement. The country, in effect, is still prey to the armed rebellion of the Reverend Frédéric Bitsangou, alias "Pasteur Ntoumi", who has been marginalised as a result. Many of his partisans, the former "Ninjas" hitherto tolerated by the authorities in the capital, were driven out following clashes with the police force causing six deaths in Brazzaville on 13 October. This event had briefly kindled the fear of renewed conflict. Several weeks later, the MCDDI suspended its participation in one of the main opposition coalitions. The capacity for military disturbance by the radical Ninjas remains nonetheless significant, especially in the Pool region, where there are still some areas of instability. This region might also be experiencing, according to a report by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) released in early 2005, a "neglected humanitarian crisis". The disarmament programme backed by the international community, currently on hold, could otherwise still be implemented in 2006, as the World Bank and the Government of Congo signed a $17 million plan for the disarmament and resocialisation of combat veterans in December 2005.

In the social area, 2005 was marked by a general strike of public-school teachers, begun on 3 October then suspended in an atmosphere of confusion nearly seven weeks later, following an agreement obtained by negotiators whose legitimacy was contested. According to many observers, the movement was the reflection of a greater general social discontent. The gradual extinction of the centres of tension that have endured after the war and the sky-rocketing prices of crude oil have indeed created high expectations of "peace and oil dividends" among the population. Accumulation of the social debt, exacerbated by the stagnation of the privatisation process, as well as the freezing of "financial benefits following advancements, reclassifications and other promotions" since 1995 (except for the military, police officers and magistrates) have crystallised a large part of employee demands. This context is not particularly promising for the reforms in utility invoicing (moving from fixed-fee to meter-based invoicing) or for the possible liberation of the prices of petrol at the pump – currently subsidised by the government.

Failing to meet the conditions for evaluation of its national diamond-production capacity, Congo was unable to be reintegrated into the Kimberley process (for preventing diamonds from conflict zones being sold on the legitimate market to finance wars), from which it was excluded in 2004.

The education and health sectors figure among the major beneficiaries announced in the interim PRSP, completed in 2004, and the priorities listed by the government. Although major public investments were planned for 2005, however, (38 per cent of the budget was to be allocated to these sectors) results are yet to be seen. In light of the high hopes engendered by the surplus oil and the goal of fighting poverty, progress in the key social sectors remains insufficient. It is difficult, however, to evaluate the situation precisely, as the faltering statistical apparatus cannot collect reliable data.

A model country in terms of education even after the decade of conflicts, Congo saw its primary-school enrolment fall from 100 per cent to 89 per cent in 2004, with one of the highest rates in all of Africa of students repeating a year (30 per cent in primary schools, 40 per cent for third year alone).

There are many reasons for this weak performance. First, educational infrastructure was heavily damaged in the south during the war, and there is a glaring lack of maintenance. School facilities in the cities are in very poor condition, while there is a lack of infrastructure in the rural areas, making access to primary education in the countryside particularly difficult. Moreover, the quality of education has dropped sharply due to the lack of educational materials and teaching personnel. Although the public registries list 15 300 teachers, the real numbers are around 9 000. In general, the missing teachers are looking for better-paying jobs in the various government agencies and political offices. The pupil-teacher ratio (PTR) in 2004 was 98 at the national level, peaking at 108 for public schools in urban areas. The situation also testifies to the inefficient management of human resources. The strike of more than a month at the beginning of the school year in 2005 threatened the smooth running of that school year and prompted the meeting of an interministerial commission to try and bring teachers back into classes. The strike was finally suspended (with a warning of resumption in March 2006), but at the end of 2005, the teachers were still slow in returning to the classrooms. The situation remains fragile, particularly in the south.

The Support to Basic Education Project of 2003, financed by a grant from the World Bank, did not start up its activities until March 2005. In question was the cabinet reshuffle of early 2005, undertaken to provide a better response to the main difficulties encountered in the sector. The project aims, among others, at: building capacity, with personnel-management planning and the formulation of education policies; rehabilitating the education infrastructure and fostering community management of schools, with the formation of committees in charge of the maintenance of educational institutions; improving quality and renewing educational methods, with teacher training and the purchase of textbooks, and; supporting the enrolment of out-of-school children and Pygmy children, very few of whom attend school.

The health sector is characterised by increasingly obvious difficulties in accessing care and by the deterioration of health centres. Once again, the years of conflict accelerated the degradation of the institutions already lacking in upkeep. The destruction has been met with insufficient offers of infrastructure, especially in the remote areas of the country. The new Demographic and Health Survey planned for mid-2006 should provide detailed information on the state of health in Congo.

For the last ten to twelve years in which statistics were available, reductions were recorded in infant mortality (from 83 per 1000 in 1990 to 70 per 1000 in 2005) and in child mortality (110 per 1000 in 1990 to 104 per 1000 in 2002). The maternal-mortality rate, however, jumped from 890 per 100 000 in 1990 to 1 100 per 100 000 in 2002. Badly treated infectious and parasitic diseases such as malaria (endemic in the country), acute respiratory infections, diarrheal diseases, tuberculosis and HIV/AIDS are all to blame.

According to the Joint United Nations Programme on HIV/AIDS (UNAIDS), the rate of HIV/AIDS for the adult population was 4.9 per cent at the end of 2003. This signifies a generalised epidemic.

Congo is getting a $19 million grant from the World Bank to fight the pandemic. In 2005, the Global

Fund for Aids, Tuberculosis and Malaria (GFATM) promised $45 million over a period of five years.

As in most African countries, access to antiretroviral drugs (ARVs) in Congo is problematic. The cost of monthly treatment has soared to 5 000 CFA francs, an exorbitant sum for a large part of the population, more than half of which lives below the poverty line. Of the 30 000 in need, only 3 000 sick – about 400 of whom are in Brazzaville – have access to ARVs. Co-operation with the GFATM should lead to some improvement in this area. For their part, the largest businesses operating in the in country have been caring for sick employees and their families since 2004.

HIV/AIDS has also led to an increase in the number of orphans. According to UNAIDS, 97 000 children had lost at least one parent to the virus at the end of 2003. These children's living conditions are particularly hard, due not only to the loss of their parents, but also because of the strong stigma associated with the disease. The phenomenon has become extremely important in the last few years, with the proliferation of born-again churches distributing information on protection matters that is often incorrect and therefore dangerous.

The Ebola epidemic, a fatal disease that appeared in the north-west of the country with particularly virulent outbreaks, has let up to some extent since 2005. The only recorded episode occurred in the western basin and caused the death of ten people. Given the speed of transmission of the virus, this limited incidence may indicate that the early-warning system in place is working effectively.

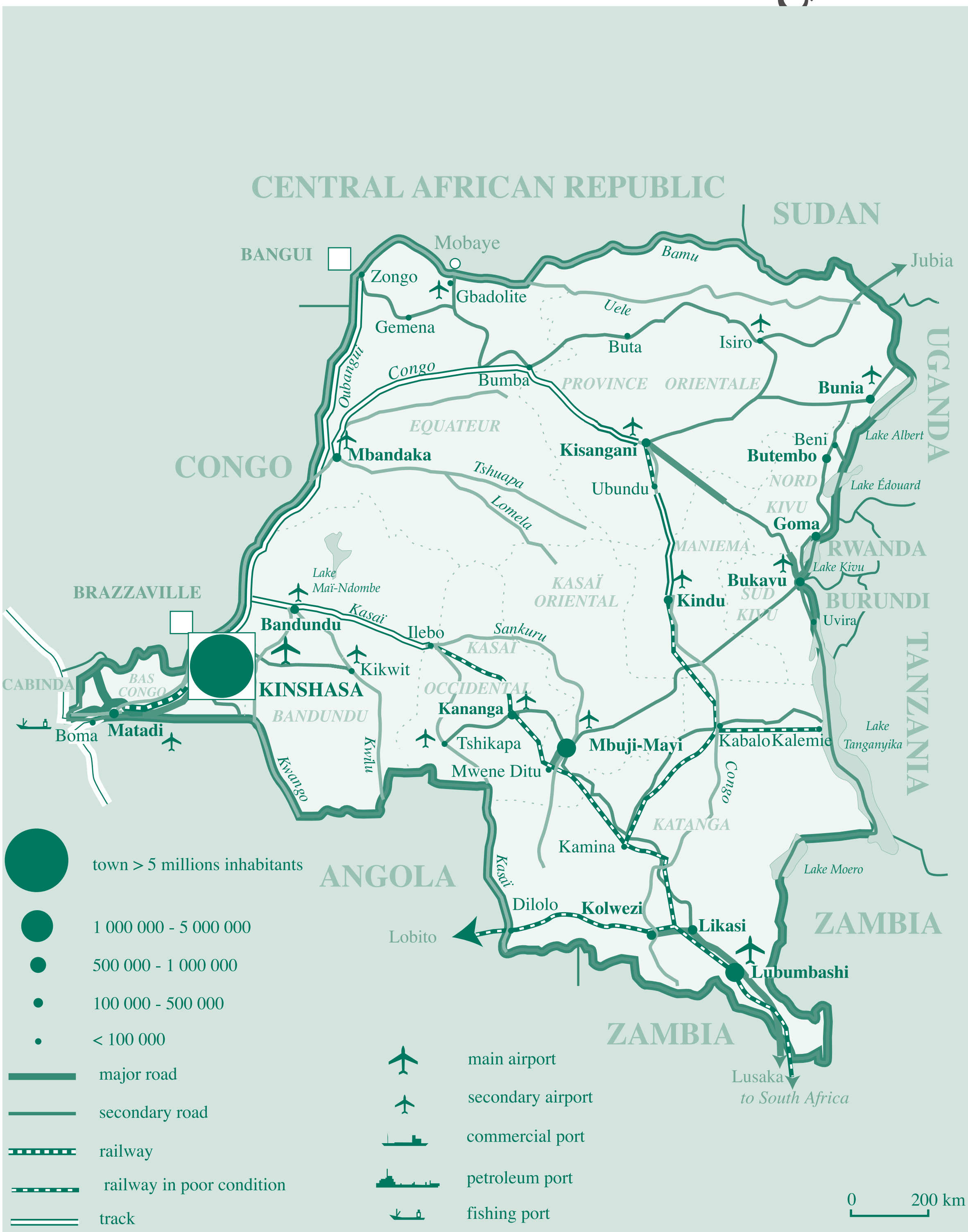
Democratic Republic of Congo

key figures

• Land area, thousands of km²	2 345
• Population, thousands (2005)	57 549
• GDP per capita, $ PPP valuation (2005)	460
• Life expectancy (2000-2005)	43.1
• Illiteracy rate (2005)	31.9

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/141255437672

Democratic Republic of Congo



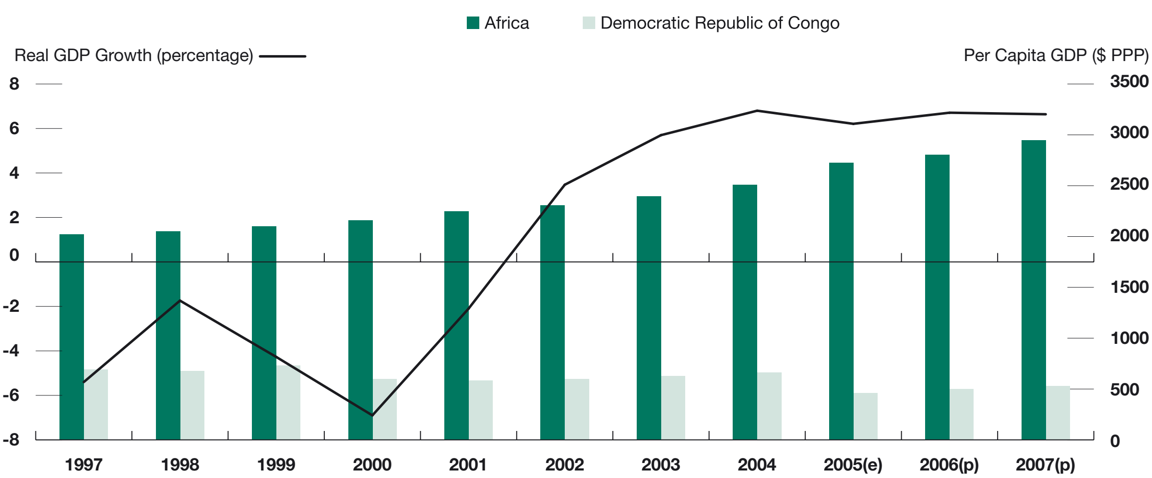
After several years of war and political instability, the challenges with which the Democratic Republic of Congo (DRC) is confronted are manifest. As is generally the case in post-conflict situations, reconstruction, rehabilitation and resumption of the functioning of the wider economy require a very great number of reforms, colossal financial resources and the establishment of transparent management systems and good governance. At the same time, lobbies and political pressure groups are still very much present.

The country needs, too, to tackle the state of poverty in which three-quarters of the population lives at a time when revenues are low and its main donors are concentrating on the cost of maintaining security and preparing elections. The future of DRC is largely dependent on the outcome of the presidential and legislative elections, which should take place in the spring of 2006. The international community and private investors have their attention fixed on these elections, which, if they go well, will allow different projects and programmes to be relaunched.

Renewed investments and the country's economic future depend largely on the outcome of the 2006 elections and the maintenance of peace.

For the third consecutive year, DRC has continued to register good performances via implementation of the government's economic programme. The country has succeeded in stabilising its macroeconomic framework, controlling hyperinflation and reviving a number of economic activities. Growth forecasts for the years to come are fairly promising, with 6.2 per cent expected in 2005 and 6.7 per cent in 2006, and the potential for exploitation of its natural and energy resources is immense. At the start of 2005, insecurity problems in the eastern part of the country resulted in additional military expenses that were financed by printing money, which, in turn, led to higher inflation and a lower exchange rate. Nevertheless, DRC should reach the completion point for the Heavily Indebted Poor Countries (HIPC) Initiative by the end of 2006, which would open the way to a significant and definitive reduction in the weight of the external debt in 2007. A new three-year plan to deepen reforms should be negotiated with the International Monetary Fund (IMF) for the 2006-09 period.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

Economic recovery is the result of the massive aid offered by donors, investment flows and reform and restructuring efforts, notably in mining and forestry. In this way, GDP growth rose from 5.7 per cent in 2003 to 6.8 per cent in 2004. It should reach 6.2 per cent in 2005, 6.7 per cent in 2006 and 6.6 per cent in 2007. DRC's extraordinary potential in mining, forestry and hydroelectricity could generate even higher growth through the current elaboration of a coherent economic and sectoral policy and rehabilitation of basic infrastructures.

In 2004, the primary sector accounted for 59 per cent of GDP, of which 49 per cent for agriculture, fishing and forestry and 10 per cent for mining and quarrying. Cultivated land represents only 10 per cent of total arable land available, however, and major irrigation opportunities are not being exploited. The international community is expected to contribute to the reviving of the agricultural sector through support for the scientific activities of the Institut National d'Études et de Recherches Agronomiques (INERA) and rehabilitation of agricultural supply routes destined to allow major centres to receive basic foodstuffs. Agriculture is essentially of the subsistence-type but there is some export of such products as coffee, cocoa, rubber, oil and timber. In 2004, timber production increased 48 per cent over the previous year and the country possesses nearly half of all African forest reserves.

The mining sector was for years the economy's principal motor but also the cause of all jealousies and conflicts. With regard to copper, the contribution of Générale des Carrières et des Mines (Gecamines) to added value has steadily dwindled, falling from 69 per cent in 1974 to about 5 per cent in 2002, which represents a drop of more than 90 per cent over the period. The fall in production is directly tied to the collapse in September 1990 of the main mine in Kamoto but also to a low replacement investment level, shortage of working capital and the general obsolescence of production plants. Diamond production came close to 30 million carats in 2004, up 11 per cent on 2003. The Kimberley Process allowed some small-scale production to be reintroduced into the official circuit. In 2004, DRC also produced 395 309 tonnes of cement, 5 067 tonnes of zinc, 8 851 tonnes of cobalt and 1 tonne of gold. Also in 2004, crude oil production returned to its 1995 level of 10 million barrels.

If the mining sector is underperforming, so, too, are the water and energy sectors. Although the country's electricity generating potential is estimated to be 106 000 MW, most of it from hydroelectric sources, only 7 per cent of the population has access to electricity. At the same time, only 25 per cent of the urban population and 17 per cent of the rural population have access to drinking water despite the country having immense water resources and abundant rainfall.

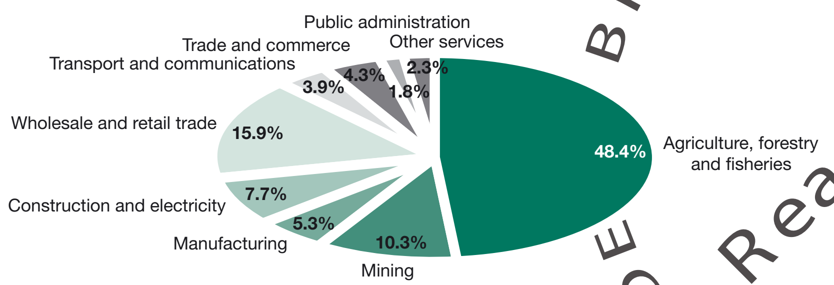
The secondary sector was relatively stable in 2004 with a 13 per cent share of GDP. Manufacturing production comprises mainly wheat flour and fizzy and alcoholic drinks. The tertiary sector accounted for 29 per cent of GDP. In the services sector, transport

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**36.2**	**9**	**12.2**	**12.8**	**18.4**	**19.6**	**20.8**
Public	0.5	1.0	2.7	2.8	7.8	9.0	9.5
Private	35.7	8.0	9.5	10.0	10.6	10.7	11.3
Consumption	**60.5**	**96.0**	**95.0**	**96.1**	**91.8**	**90.9**	**90.9**
Public	8.0	5.5	6.3	8.2	9.2	9.2	9.3
Private	52.5	90.4	88.7	87.8	82.5	81.7	81.6
External sector	**3.4**	**-4.9**	**-7.2**	**-8.9**	**-10.1**	**-10.6**	**-11.7**
Exports	19.1	21.2	26.1	30.5	33.3	32.8	32.1
Imports	-15.8	-26.1	-33.3	-39.4	-43.4	-43.4	-43.9

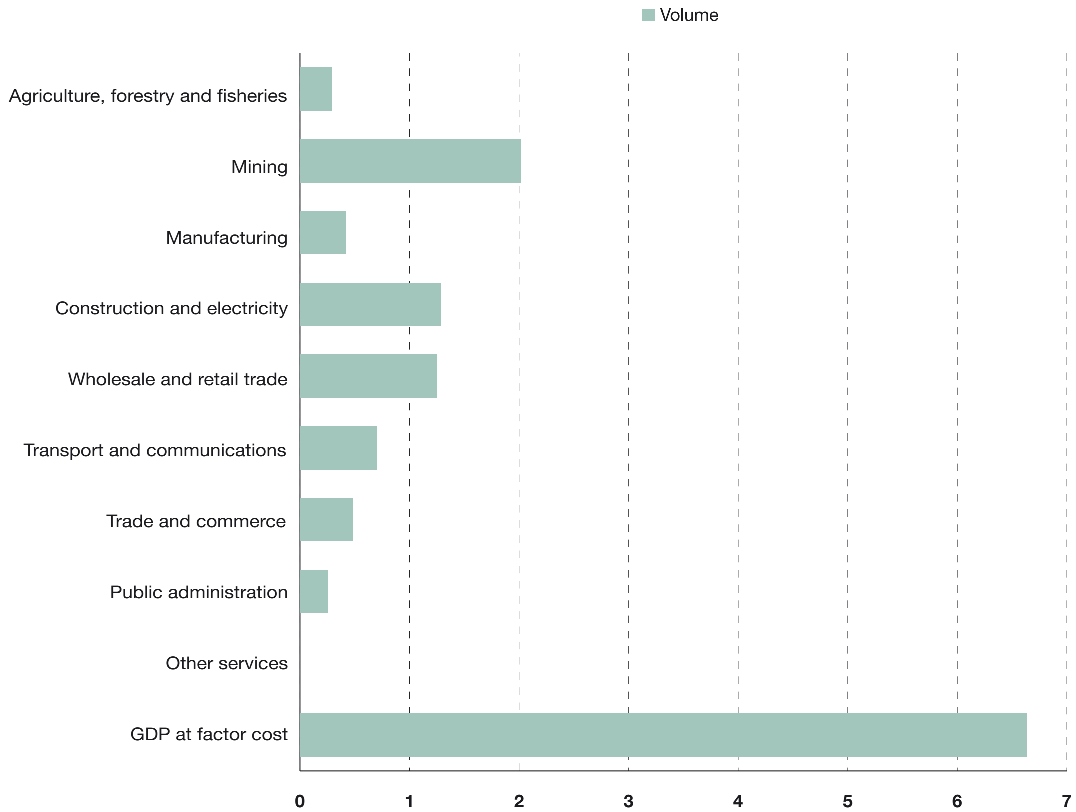
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on Central Bank data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on Central Bank data.

and telecommunications have shown the strongest recovery since the end of the war.

Alongside these sectoral developments, private consumption was more sustained in 2004 than in 2003, as was private investment. Public consumption also increased in 2004 and 2005, provoking inflationary surges. On the other hand, an increase in the external deficit in 2004 and 2005, which will probably continue in the coming years, offset pressure on internal demand.

In 2004, the global investment rate was still insufficient to generate self-sustaining growth. It reached 12.6 per cent of GDP in 2004, of which 2.8 per cent for public investment. With external support, however, public investment virtually doubled in 2005 and its share of GDP rose to 7.8 per cent. In future, it should continue to increase and the national investment rate could exceed 20 per cent in 2007. Taking account of low internal savings – less than 5 per cent in 2004 and not more than 10 per cent expected in the years to come – investment is financed by foreign funds.

Macroeconomic Policies

Fiscal Policy

Until January 2006, the government economic programme tied DRC to the IMF via the Poverty Reduction and Growth Facility (PRGF). A new three-year programme is due to take its place.

In 2005, the international community financed 58 per cent of the state budget. Because of the preparations for the elections, the contribution of grants to GDP was considerable, at 9.3 per cent. It should continue to be high in 2006 and 2007, at 7.6 and 8.1 per cent respectively. Without these very large amounts, the economy would collapse. Total revenue, which represented 5.1 per cent of GDP in 2000, was up to 11.6 per cent in 2004. It should reach 18.7 per cent in 2005 and 17.1 per cent in 2006. This phenomenon can be explained notably by an increase in oil revenues, especially in 2005, and by more effective tax collection following a general strengthening of fiscal administration over the country.

Since 2003, expenditure has increased markedly, partly as a result of the country's reunification and partly because of an increase in military spending destined to restore peace, notably in the eastern part of the country. Expenditure should reach very high levels in the years to come. It is expected to reach 21.3 per cent of GDP in 2005 and 22.4 per cent in 2006. In 2004, because of insecurity problems, investment and other public expenditure on the poor was not as high as expected. It fell short of the initial programme – by 61 per cent for capital expenditure. The government resorted to bank financing and money printing to cover additional current expenditure, which came to 12.6 per cent of GDP. For 2005, 2006 and 2007, capital expenditure is expected to increase strongly – from 7.7 per cent of GDP in 2005 to 9.4 per cent in 2007, compared with 2.8 per cent in 2004 – because of the scale of the country's infrastructure and reconstruction needs.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**9.3**	**7.9**	**9.7**	**11.6**	**18.7**	**17.1**	**17.8**
Tax revenue	4.2	6.5	6.9	7.7	7.6	7.7	7.8
Grants	4.1	0.4	2.0	2.0	9.3	7.6	8.1
Total expenditure and net lending[a]	**10.1**	**10.3**	**13.6**	**15.4**	**21.3**	**22.4**	**22.7**
Current expenditure	8.4	9.4	10.9	12.6	13.6	13.4	13.3
Excluding interest	*8.4*	*6.2*	*7.5*	*9.3*	*10.4*	*10.5*	*10.6*
Wages and salaries	1.4	1.9	2.5	3.6	3.3	3.1	3.0
Interest	0.1	3.2	3.4	3.3	3.2	3.0	2.7
Capital expenditure	0.5	0.5	2.7	2.8	7.7	8.9	9.4
Primary balance	**-0.7**	**1.2**	**-0.4**	**-0.5**	**0.6**	**-2.3**	**-2.2**
Overall balance	**-0.8**	**-2.0**	**-3.9**	**-3.8**	**-2.5**	**-5.2**	**-4.9**

a. Only major items are reported.
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Overall, taking into account grants, the budget deficit came to 3.8 per cent in 2004. It could be reduced to 2.5 per cent in 2005 thanks to the external resources expected for the elections and the disarmament, demobilisation and reintegration (DDR) programme as well as payment of the first tranche of arrears held by private creditors. It is expected to rise again to 5.2 per cent of GDP in 2006, however, and come close to 5 per cent in 2007.

The problem of the internal debt – which is social, commercial and contracted with public companies – is in the process of being settled via a mark-down and a reimbursement schedule spread over several years. Altogether, public arrears are thought to represent over $1.3 billion.

Monetary Policy

Although the primary objective of the Banque Centrale de Congo (BCC) is to maintain price stability through a rigorous monetary policy, it ran into several difficulties in 2005. First, despite the bank's independence, budgetary difficulties, arising from the insecurity in the eastern part of the country, led to a deterioration in the monetary situation between January and April, characterised by an increase in money supply and inflationary pressures, and a new fall in the exchange rate. The BCC reacted in February by sharply increasing its discount rate from 20 to 65 per cent so as to absorb surplus monetary liquidity and prevent it from growing further. In July 2005, it reduced its official market rate again to 30 per cent. Second, the BCC functions with just 14 per cent of money supply in Congolese francs since the remaining 86 per cent (CDF106.22 billion) is outside the banking circuit. This phenomenon is a result of the under-representation of the banking system in DRC. There is only one bank branch for every 1.5 million inhabitants and for every 56 000 km². Third, the face value of notes is much too weak, given that the highest value note, which has a value of CDF500, is worth just $1.2. The economy is highly dollarised. Another major reason for dollarisation is the low credibility of the national currency after annual inflation reached more than 500 per cent in 1999 and 2000.

The floating exchange system enabled exchange rates to be stabilised until the first half of 2004. After that, the Congolese franc started to depreciate progressively, finally falling 30 per cent between January and April 2005. The dollar was traded at CDF450 in December 2005, compared to CDF515 in mid-April 2005.

As a result of the monetary slide, the increase in military spending and the increase in the price of oil products, inflation accelerated in the first half of 2005, reaching a peak of 26.6 per cent at the end of May. On a full-year basis, the inflation rate was 22.6 per cent in 2005 but should be brought back under 10 per cent in 2006 and 2007, when it is forecast to fall to 6.7 and 5.2 per cent respectively.

External Position

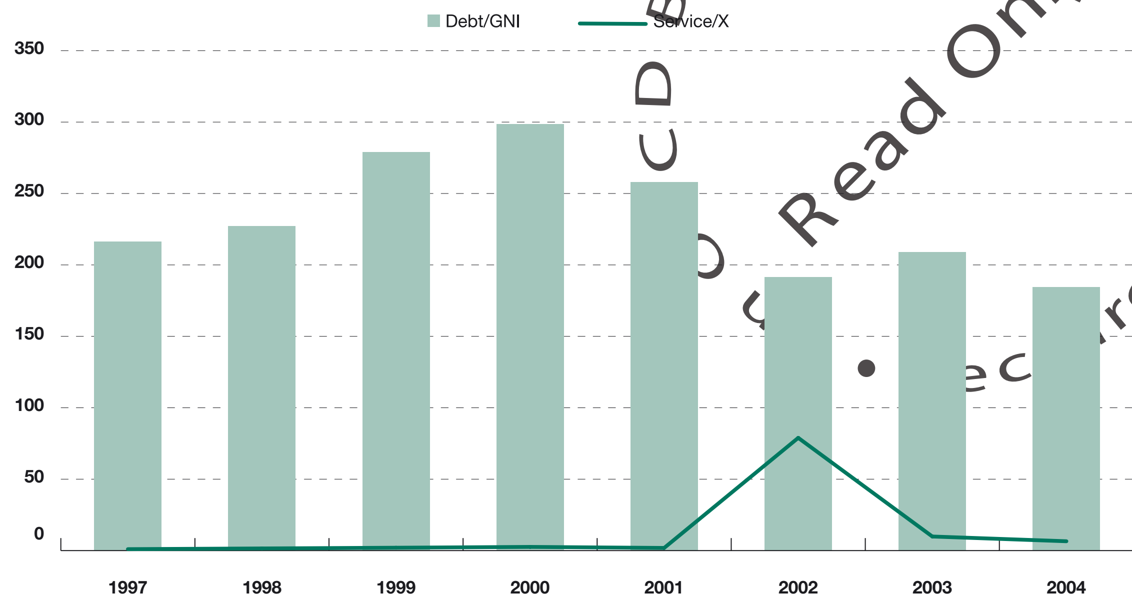
DRC's geographical position enables it to belong to four regional communities: the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of Central African States (ECCAS) and the Economic Community of Great Lakes Countries (CEPGL). It has earned sanctions for payment arrears from the SADC and COMESA, however. In September 2005, the authorities in the provinces of Katanga (DRC) and Copperbelt (Zambia) adopted a series of measures aimed at encouraging trade and reinforcing their common border.

Table 3 - Current Account (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	8.4	-0.3	-2.8	-3.8	-4.2	-4.4	-5.4
Exports of goods (f.o.b.)	20.1	19.4	23.6	28.1	31.1	30.9	30.2
Imports of goods (f.o.b.)	-11.7	-19.7	-26.4	-31.9	-35.3	-35.3	-35.6
Services	-4.8	-4.6	-4.5	-5.0			
Factor income	-7.1	-5.4	-3.0	-4.1			
Current transfers	0.0	7.5	8.8	7.5			
Current account balance	**-3.4**	**-2.7**	**-1.5**	**-5.4**			

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

DRC's exports are largely based on very low added value mining and agricultural products, both of which have been falling for three decades. According to forecasts, the share of exports in GDP should stabilise at less than 31 per cent in the years to come. The contribution of copper and cobalt production by Gecamines, which used to average more than 60 per cent in the 1970s and 1980s, represented only 7.3 per cent in 2004, even if this represented a 218 per cent increase over 2003. At present, diamonds and oil account for three-quarters of foreign currency revenues. In 2004, moreover, DRC exported 647.85 kg of gold for revenues totalling $7.45 million and 6 098 tonnes of cassiterite (tin) for a little over $5 million. DRC also exports a few industrial products like cement and chemical products.

The hyper-concentration of the country's exports is one of the explanations for the fall in foreign trade. In the import field, DRC depends heavily on very costly manufactured products from countries in the northern hemisphere. Between 2003 and 2004, the value of imports increased 24.6 per cent, including an increase of 76.6 per cent for capital equipment and 72.8 per cent for raw materials which were required for the resumption of economic activity. Imports represented 35.3 per cent of GDP in 2005, against 31.9 per cent in 2004. They should remain high at over 35 per cent of GDP in 2006 and 2007 and so contribute to increasing the trade deficit.

In 2004, exports increased strongly in value, rising 34.6 per cent following an increase in the prices of mining products and oil. Overall, the trade deficit amounted to 3.8 per cent of GDP. It should reach 4.2 per cent of GDP in 2005, then 4.4 and 5.4 per cent respectively in 2006 and 2007. The big increase in debt interest repayments contributed, moreover, to a deterioration in the current balance, which increased from 1.5 per cent of GDP in 2003 to 5.4 per cent in 2004.

Over the last four years (2001-05), the World Bank has invested about $1.83 billion in DRC in the form of loans and subsidies. The majority of these operations have been classified as urgent loans and adjustment loans for political reform and budget support.

In July 2003, DRC attained the decision point under the Heavily Indebted Poor Countries (HIPC) Initiative and has benefited since from a reduction in external debt service from its creditors. The reduction of about two-thirds was revised to $86 million in 2004 and $146 million in 2005. At the end of 2004, the stock of external debt was estimated to be $10.9 billion, three-quarters of it owed to multilateral bodies. In 2005, the international financial institutions decided to grant funds totalling $150 million to DRC, of which $40 million for balance-of-payments support. In addition to this amount, budget support totalling $90 million was granted, comprising $42.7 million for internal debt payments and $47.5 million for retirement dues. A further $20 million was granted for public service restructuring.

The period of debt service relief was extended for a year by the IMF in August 2005. Drafting of the Poverty Reduction Strategy Document (PRSD) was due to be completed for the end of 2005 and will enable the country to reach the point of completion under the terms of the HIPC Initiative by the first quarter of 2007. DRC could then benefit from a 90 per cent cancellation of its debt stock.

Structural Issues

Recent Developments

In the context of the programme concluded with the IMF, DRC is in the process of adopting structural reform programmes covering good governance, price liberalisation and the encouragement of business through the establishment of an appropriate institutional and regulatory framework. A complete privatisation and public company reform programme should be brought into operation in 2006. Exploitation of mineral and forest resources should be carried out in a transparent manner with greater private sector involvement. In the judicial field, two commercial courts were set up in 2005 in Kinshasa and Lubumbashi. An anti-corruption law was promulgated in March 2005.

In general terms, the state has been obliged to privatise public sector companies because they are often bankrupt, starved of capital and unable to pay their taxes. They represent an excessive burden on the public purse, all the more so because the state guarantees their external loans and grants them subsidies to enable them to survive. Country risk is very high, however, and certain assets may be worthless, particularly outside sectors offering good prospects like telecommunications, mining, forestry and water and energy infrastructure.

The pilot committee for public company reform (COPIREP) has been given the job of preparing legislation to modernise the legal framework of public companies and to privatise some of them. Already in 2004, the government's economic programme financed by the World Bank, provided for the restructuring of a series of companies through voluntary departures of employees. These measures had started to be applied in such companies as Gecamines and the Office Congolais des Postes et Télécommunications despite strong union resistance.

Transport Infrastructure

Transport infrastructure in DRC is either dilapidated or inexistent. In the ten years after independence, practically no maintenance was carried out and the entire network created for colonial exploitation collapsed. In the 1970s, in collaboration with the main donors, steps were taken to rehabilitate it but were rapidly abandoned because of political instability and war. Lack of maintenance and destruction have left an infrastructure system which exists only on maps.

The state of the transport sector is having dramatic consequences on the whole country in the form of insecurity, lack of internal socio-economic cohesion, pauperisation of isolated regions and limitation of development and trade. The bulk of the DRC's territory is at present inaccessible. Out of ten provincial capitals, only one is accessible by road, three by river and six only by air. Communication between these capitals and other provincial centres and access to rural areas is often no longer possible.

Of the immense 145 000 km road network, of which 58 000 km are categorised, only 2 800 km are surfaced and road signs are inexistent. As for the railways and their 5 000 km of track, the majority is unusable because of the poor state of the tracks and bridges and the destruction and pillage of rolling stock. There is a 16 200 km network of inland waterways, with 40 ports on the River Congo, its tributaries and the lakes. The inland waterways are the only trade route to the northeast. The absence of dredging over the last 10 years, the general deterioration in the state of channels and ports and pillaging have made navigation very dangerous, however, and not very profitable. The deep-water port of Matadi in the southwest is DRC's only maritime outlet but only a part of the port's installations are still functional and draught maintenance is a source of enormous difficulty. Moreover, the 5 000 tonnes of cargo which arrive each day can be dispatched neither by road nor railway. The port is completely congested. In the air transport sector, the network comprises 270 airports, aerodromes or landing strips, including five international airports. Kinshasa absorbs 80 per cent of domestic traffic. At the same time, infrastructures are deteriorating because of strong demand for air travel arising from the lack of alternative modes of transport. A series of crashes bear witness to the deplorable state of the country's private aircraft fleet. Out of a total of 51 companies, 33 were banned from flying in September 2005 and the government announced an increase in the number of inspections and a total ban on flying for aircraft more than 20 years old.

The multimodal nature of the transport network means that it is managed by several different specialised institutions which are often public sector companies overseen simultaneously by several ministries. The Office des Routes and the Office de Voirie et Drainage (ministry of public works), as well as the Direction des Voies de Dessertes Agricoles (ministry of rural development) manage and maintain major national roads, urban roads and secondary and rural roads. Rail infrastructures are run at sub-network level by the Office National des Transports (ONATRA) in the west, the Société Nationale des Chemins de Fer du Congo (SNCC) in the south and the Chemin de Fer des Uélés (CFU) in the north. Three separate bodies run the main sea, waterway and air ports and oversee navigation. In future urban transport is to be run by the newly created Société des Transport Urbains Congolais (STUC).

Given the sector's fragmentation and the absence of a national transport plan to co-ordinate and formalise policies in the different sub-sectors, the performance of these institutions has been very uneven. The multimodal nature of the network is poorly exploited even though all transport projects emphasis the need for intermodality to make the system efficient and end the country's isolation.

To deal with the dilapidation of infrastructures and the problems of organisation, the government intends to finance certain projects and undertake legislative and institutional reforms. Projects can be divided between those which are short term, dealing with security and communication at the national level, and those which are long term, dealing with the need for rural integration enabling the country to play the role of backbone of Africa which goes with its geographical position.

The first series of projects is described in the Emergency Multisector Rehabilitation and Reconstruction Project (EMRRP), which takes account of the country's primary need for communications and security. Next, following the reunification of the territory, another series of measures has been prepared for the east of the country. Finally, in the Minimum Partnership Programme for Transition and Recovery (MPPTR), a list of priorities has been presented to donors on the basis of impact criteria which take into account the access they offer and the technical feasibility of the work they entail. These projects should allow several existing infrastructures to be rehabilitated, links between production consumption centres to be restored and mining activities to be revived. The road link between Kinshasa and Matadi has been rehabilitated and river traffic between the capital and Kisangani, the country's third biggest city, re-established.

Apart from this priority to develop the interior, the government is considering a wider ranging programme aimed at regional integration. Trade growth is seen as dependent on construction of major transport corridors like the North Corridor, which will link the Indian and Atlantic oceans via the Kenyan port of Mombasa and that of Banana in DRC, and the South

Corridor, which will run between the mines of Katango and Kasai to southern Africa. Rail gauge problems mean that the northern rail network cannot be linked to the other regional networks. As for the African aviation market, the liberalisation which the Yamoussoukro Decision is expected to usher in, could enable DRC's enormous potential to be exploited by promoting its integration at continental level.

In all, many projects exist but their realisation requires institutional reforms, the co-ordination of rehabilitation activities, improved project management capacity and provision of necessary financing. Rehabilitation generates major maintenance costs which it would be preferable to reduce by completely renewing existing infrastructures.

Establishment of an efficient transport system is a long-term objective which will cost billions of dollars but is hampered both by DRC's limited investment absorption capacities and the availability of resources. The financial needs of the minimum programme projected over the next three or four years come to $919 million, of which $374 million in the first year.

In the medium term, the government is working on new solutions. A road maintenance fund is in the process of being set up to improve road safety, stop road deterioration and attract more funds from donors. Low traffic levels means that it is impossible to set up toll stations to recover investment funds, with the result that private sector involvement in infrastructure financing is limited. To overcome this, a system of operating concessions for quarries and mines, which would be linked to road and rail infrastructure rehabilitation, could be set up. More generally, however, the absence of framework legislation for public-private partnerships represents an obstacle to national and international private sector involvement in implementation of transport policy.

With the exception of telecommunications, where there has been spectacular development thanks to the high number of potential users, the private sector is still handicapped by regulatory and institutional constraints, as well as by lack of infrastructure. Nevertheless, sectors such as energy, mining, forests and agro-industry should attract investors in the years to come.

In the banking sector, nine banks have recently been put into liquidation and seven others are due to be restructured in 2006, while three foreign banks opened in 2005. In the microfinance sector, ProCredit Bank Congo, the first private microfinance bank, which itself groups 19 specialised banks, was inaugurated in October 2005. The informal trading, which dominates nearly 90 per cent of the Congolese economy, is the principal target of this new bank, which offers its clients the opportunity to open an account without a prerequisite deposit. In Kinshasa, nearly 2 000 clients had opened an account and nearly 200 micro-loans had been granted only 45 days after the bank's opening.

Political and Social Context

Since April 2003, DRC has been engaged in a fragile political transition which had been due to end in June 2006 with the organisation of the first democratic elections in 40 years. The independent electoral commission took charge of the identification and registration of voters in the provinces. It had already collected the details of 17 million electors out of an estimated potential total of more than 20 million in November 2005. The international committee for accompaniment of the transition, composed of five permanent Security Council member countries, Belgium, Canada, South Africa, Angola, Gabon, Zambia, the European Union, the African Union and the United Nations mission in DRC, has been given the task of following the transition and election processes. The constitutional referendum took place on 18 December 2005; the first round of the presidential and legislative elections is planned for June or July and the second round of the presidential elections six weeks later. The electoral budget totals more than $185 million, not including the cost of logistics and voting security, which takes the total projected budget to $430 million. This process is being largely financed by the international community, including, notably, the European Union.

DRC is having difficulty, however, in forming a national army integrating all the armed groups from the former rebellions, which is one of the principal obligations of the transition government. Ituri, a district in the northeast of the country, is still trying to emerge from six years of war and inter-ethnic violence in which militia groups opposed to disarmament are maintaining a climate of terror. Since 1999, more than 60 000 people have been killed and 600 000 displaced in this district of some 5 million inhabitants. Gold, oil, timber and uranium are arousing the jealousies of neighbouring countries. A report by United Nations experts, circulated in August 2005, established a link between the pillage of DRC's natural resources, trafficking and arms smuggling in the east of the country. It notes big discrepancies between the mining resources of Uganda and Rwanda and the volume of minerals they are exporting. Altogether, some 377 000 Congolese have taken refuge in neighbouring countries, of whom 150 000 in Tanzania alone.

DRC is one of the poorest countries in the world. In 2005, more than 75 per cent of Congolese were still living with less than a dollar a day and did not have access to drinking water. The infantile mortality rate, at 128 per 1 000, is one of the highest in the world. Only 61 per cent of births are medically assisted but regional disparities are enormous and, on average, the maternal mortality rate is 1 289 women out of 100 000. One child in every ten is an orphan. The number of street children and child soldiers is estimated at 15 000 and 30 000 respectively.

The World Food Programme has announced that it is extending a vast operation of assistance to provide food rations for 150 000 ex-combatants and their families, a total of 750 000 people, by June 2006. This operation, which was launched in 2004 and is costing a total $191 million aims, too, to assist some 175 000 displaced persons within DRC and some 400 000 Congolese refugees who are progressively returning home.

On the employment market, unemployment or precarious employment concerned the very great majority of the active population in 2004. The numbers involved in informal work are constantly increasing and salaries are derisory. After negotiations in February 2004, a new salary scale fixed the monthly remuneration of the lowest placed civil servant at $208 and that of the secretary general of the civil service at $2 080. This scale is still not applied, however. An usher, who is on the lowest salary, receives CDF826 (about $1.7), which is supplemented by a monthly transport allowance of CDF9 202 ($20).

Progress towards realisation of the Millennium Development Goals is very slow. Gender inequality is great since most women do not have access to production factors such as land, capital and work nor to education. In 2004, 61.2 per cent of women lived below the poverty level. Their schooling levels are lower and their illiteracy level higher than those of men. Women are also exposed to sexual violence from the armed forces and rebels. They are also under-represented in strategic level decision making.

In the health field, vaccination and screening campaigns were carried out in eight provinces between September and December 2005. These campaigns were intended to protect 10 million children under 5 against polio and nearly 8 million children between 6 months and 15 years against measles. In 2004, 4 million cases of malaria were recorded and 13 000 people died of the disease. In reality, however, the malaria figure only represents 20 per cent of cases, since 80 per cent of those affected do not present themselves for hospital treatment.

HIV/AIDS is a real problem for the country because it is spreading at an exponential rate. According to 2004 statistics, 2.6 million Congolese are carriers of the disease. Every minute, ten new cases are recorded and six deaths occur as a result of the infection. The average prevalence rate is 5 per cent on average and more than 3 million children are orphans, of whom a third because of AIDS.

The literacy rate is currently 68.1 per cent. Nearly one child in two does not go to primary school, 30 per cent of them because of difficulty meeting school expenses. To this can be added the poor quality of teaching, a very high level of repeat years and difficult conditions for teachers. After a strike which started on 5 September 2005, the teachers resumed work in mid-October. They won an increase of $2.3 million over the initial wage bill allocation of $60 million. In DRC, a teacher earned the equivalent of $30 per month, including transport allowance, and probably earns $50 per month now.

In the 2005-06 school year, UNICEF should provide 3.3 million children with school material and 67 000 teachers with basic teaching material, while at the same time maintaining its efforts to support 2 000 selected schools and to improve the school attendance rate. In the first year of primary school, the 2005-06 year showed an improvement in school attendance of 32 per cent for girls and 22 per cent for boys. For the first time in DRC, the number of girls registered in first year at national level was higher than the number of boys.

The Campus Numérique Francophone de Kinshasa (CNFK) has been in operation since June 2003. It constitutes a technological platform which enables the university public to consult books, access the Internet, order recent scientific articles and follow training in information technology. In 2005, CNFK offered 32 distance education training courses leading to a diploma.

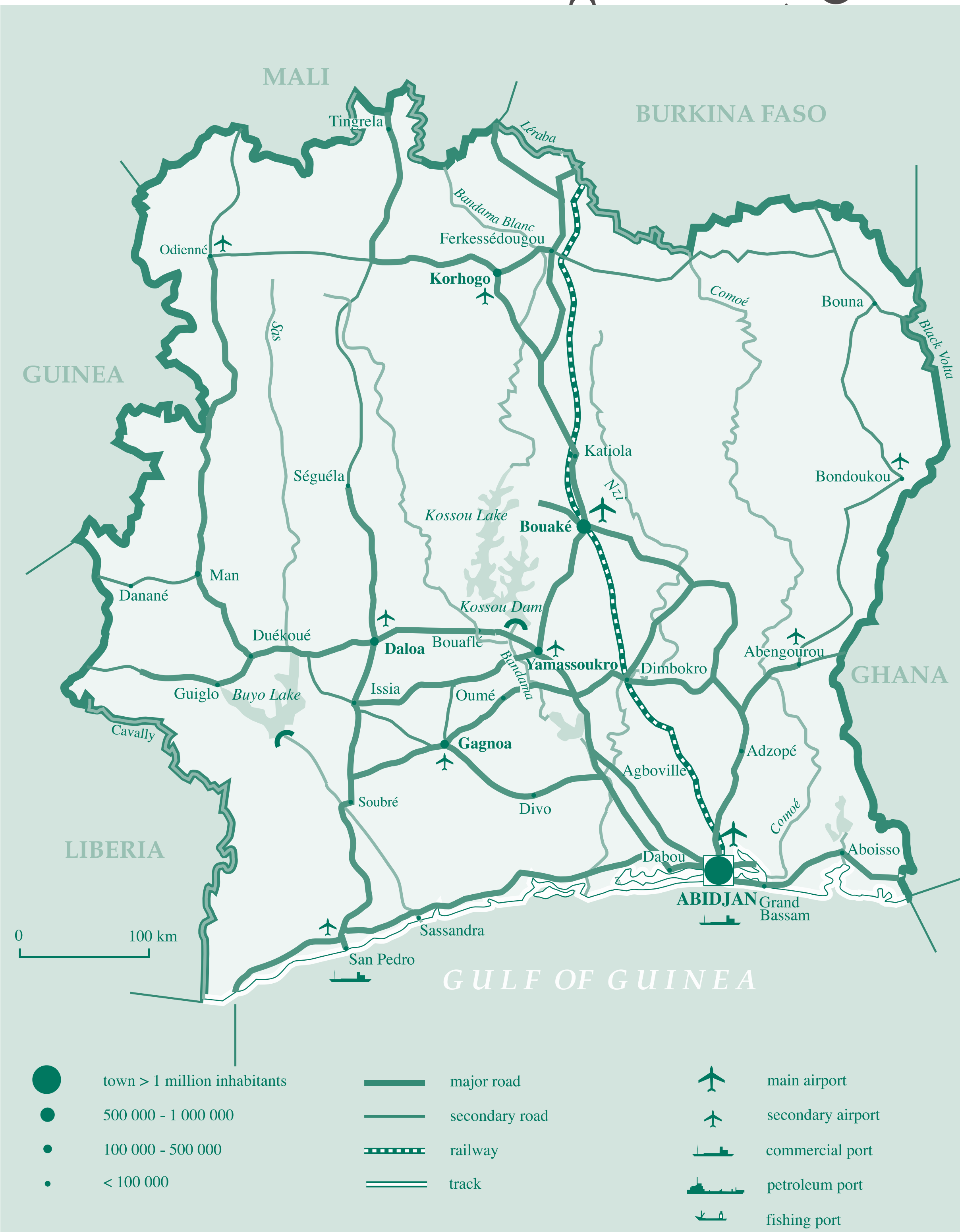
Côte d'Ivoire

key figures

• Land area, thousands of km²	322
• Population, thousands (2005)	18 154
• GDP per capita, $ PPP valuation (2005)	1 503
• Life expectancy (2000-2005)	46
• Illiteracy rate (2005)	46.3

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/264758300201

Côte d'Ivoire

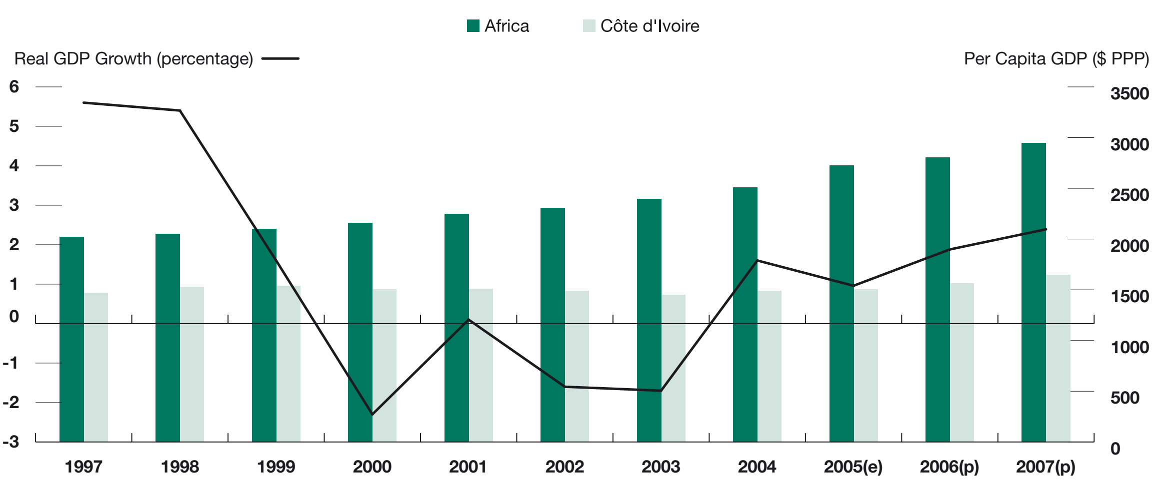


THANKS TO ITS RELATIVE ECONOMIC PROSPERITY, observed until recently in steadily positive growth rates, Côte d'Ivoire was for a long time the main development hub of the subregion. For several years now, however, the country has been in deep crisis, and this has distinctly affected its economy and social cohesion. At the root of the crisis lie several causes, including poorly controlled immigration, the absence of a real policy to manage land assets and the fragility of the country's institutional and democratic governance systems. For the past three years, Côte d'Ivoire has been divided in two as a result of a civil war that began in September 2002. The south is under government control, and the north is in the hands of the *Forces Nouvelles*, as the armed rebellion has called itself. Though a number of agreements aimed at resolving the situation have been signed by both sides, today each party is entrenched in its position and the country is at a political impasse.

In 2003 and 2004, Côte d'Ivoire recorded negative growth of respectively -1.6 per cent and -1.7 per cent. In November 2004, increased tensions led many economic operators, particularly French ones, to leave the country and resulted in the closure or relocation of a large number of companies. This had a disastrous effect on the economy. In 2005, the mediation of the President of South Africa, Thabo Mbeki, widely supported by the international community, marked a turning point. Mbeki reinvigorated the reconciliation process initiated in 2003 in Linas-Marcoussis (France); this led to the signing of agreements, which all sides are finding it difficult to respect. The South African mediation notably allowed several roadblocks to be lifted: the time chart defined in the National Disarmament, Demobilisation and Reintegration Plan (PNDDR) was ratified, the presidential election initially scheduled for 30 October 2005 was postponed, and Laurent Gbagbo's tenure as president of the republic was extended for a one-year transition period in accordance with the African Union decisions of October 2005. During the interim period, the president was to co-operate with a prime minister who was granted enlarged powers. According to the road map of the new head of government, reconstruction of the country was to begin

The economic outlook is poor due to military and political tensions.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and Institut national de la statistique (INS) data; estimates (e) and projections (p) based on authors' calculations.

in 2006, following expected disarmament and reunification. Uncertainty, however, continued to hover over the country. Indeed, the intentions of the political players of the peace process were not always clear from their behaviour.

At the end of the 2005 financial year, the economic outlook remained fairly discouraging. Political instability and the suspension of external financing hampered the government's growth objectives. As a result, the projected 1 per cent growth was unattainable, and GDP growth was expected to be -1.2 per cent in 2005. Development of the economy in 2006 hinges on the resolution of the political issues. If the climate improves, the country could rebound to positive 0.4 per cent growth.

Recent Economic Developments

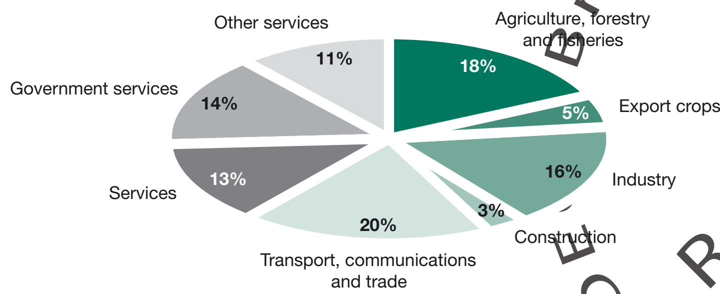
The economy of Côte d'Ivoire is primarily dependent on its agriculture: traditional export crops, particularly cocoa and coffee, other export crops such as palm oil, hevea, pineapple, sugar cane, cotton, bananas, etc. and food crops such as plantains, yams, and cassava, among others.

Some estimates suggest that the coffee-cocoa sector was less profitable in 2005 than in the previous year, when the two crops accounted for a significant proportion of export revenue (40 per cent in 2004). The 2004/05 cocoa harvest yielded 1.3 million tonnes, compared with 1.4 million in 2003/04. Concentrated in the south and south-east of the country, cocoa production suffered less from the crisis. Overall, cocoa held up well in the 2003/04 and 2004/05 seasons. This can be explained by the measures taken to protect the transport corridors between the production zones and the country's ports (Abidjan and San Pedro), permitting exports to continue. Despite the crisis, Côte d'Ivoire has remained the world's leading cocoa producer. The sector comprises almost 620 000 holdings and indirectly or directly provides a livelihood for nearly 6 million people. According to interim data for coffee, during the five principal harvesting months, production was 10 325 tonnes for the 2004/05 season, as compared with 58 948 tonnes for the same period of the previous season.

The relative decline in production in the coffee-cocoa sector is attributable to somewhat less satisfactory climate conditions, compounded by crisis-related factors and institutional factors. The events of November 2004 generated a mass exodus of migrant workers from the cocoa belt. The numerous roadblocks (allegedly for self-defence) and police road stops considerably lengthened the transport time for goods conveyed by road. Among the institutional constraints that hampered the sector were disagreements between traders and the regulator of the sector, the deterioration of port storage facilities and problems in providing services for expanding plantations. Another impediment was the Droit unique de sortie (DUS) export tax levied by the state of Côte d'Ivoire, which provides the latter with a significant source of revenue. Taxes on cocoa, the bulwark of the Ivorian economy, are currently nearly 40 per cent of the export price. Through the DUS, 20 per cent of these go to the state, and 20 per cent to the various managing bodies of the sector (the coffee and cocoa regulation authority, Autorité de régulation du café et du cacao [ARCC]; the coffee and cocoa exchange, Bourse du café et du cacao [BCC], the regulatory fund, Fonds de régulation et de contrôle [FRC]; the coffee and cocoa producers' development fund, Fonds de développement des activités des producteurs de café et cacao [FDPCC], bagging, etc.). This high level of taxes has a negative effect on the grower price of cocoa, which would require revising the current DUS. The tax burden also explains why a large part of cocoa production is smuggled out of the country to neighbouring Ghana, which gives planters higher prices.

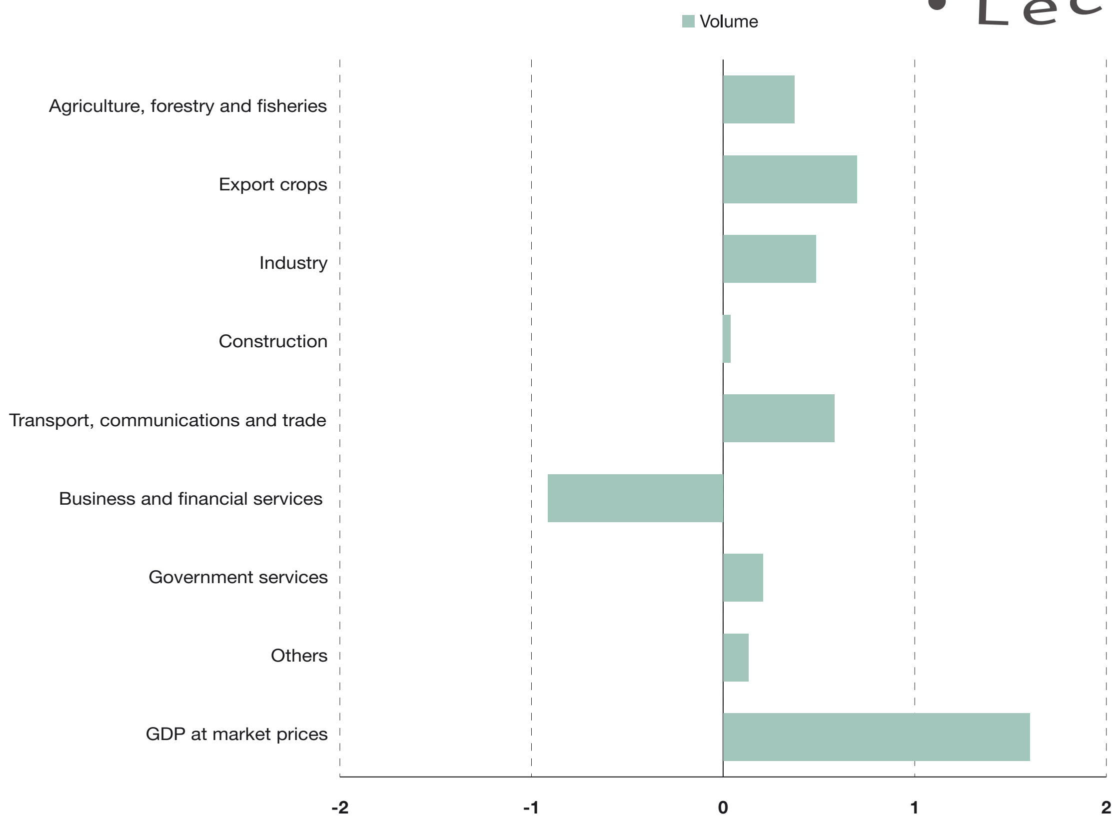
The liberalisation reforms introduced in the coffee-cocoa sector in October 2002 had three goals: to end direct government intervention and all direct or indirect financial support of the cocoa trade; to obtain adequacy between world prices and producer prices and; to secure the efficiency of competition. The current organisation of the cocoa sector, however, lacks clarity, due notably to the overlapping of the various competent institutions. In addition, producer co-operatives suffer from both

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on INS data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on INS data.

lack of resources and the inability to obtain a larger share of the market, the minimum price having become a mere guiding price.

In the coffee sector, although in January 2005 the BCC had fixed the producer price at the same level as in 2004 (225 CFA francs/kg), it climbed from 230 CFA francs/kg at the start of the commercial year to 360 CFA francs/kg in April 2005. This increase, however, had no significant effect on either the efforts made in plantations or on the planters' return. Some, believing this improvement to be temporary, remained reluctant to return to their fields.

Cotton-fibre production in the 2004/05 season amounted to 344 000 tonnes, up from 300 000 tonnes in 2003/04. The cotton sector, which up to the eve of the crisis had contributed significantly to Côte d'Ivoire's export revenue, is now in a complex and difficult situation. While production is overwhelmingly located in the north of the country, under the control of the Forces Nouvelles, processing and transformation activities, in addition to export routes, are in the government zone. Other factors disrupting the sector include: problems in the supply of plant-protection products, bank closures in the production zones, the fragile financial state of the main processing companies, increased transaction costs arising from transport difficulties and road levies imposed by the rebels, etc. To these must be added the massive flight of Ivorian cotton to neighbouring Burkina Faso and Mali, both large producers of "white gold", where it is better paid. Sector professionals estimate that 220 000 tonnes, or 55 per cent of national production were diverted to these two countries in 2004. Planters state that they can get 210 CFA francs/kg in Burkina Faso, compared with 160 to 180 CFA francs/kg on the national market.

Prior to the war, cotton producers sold their harvest directly to ginning factories, including the Compagnie Ivoirienne de Développement du Textile (CIDT) and Ivoire Coton. The war economy and the absence of banks in the north, however, brought about the emergence of new middlemen who buy cotton from small farmers for 120 CFA francs/kg and sell it for 220 CFA francs/kg in Mali or Burkina Faso. Currently, only Ivoire Coton is paying producers. Other ginning companies, having accumulated arrears, give the new middlemen an advantage as, though they pay very low prices, they pay cash. To end these earning shortfalls, it is urgently imperative to reorganise the cotton sector. The Ivorian economy could benefit greatly from this rehabilitation. In this regard, the Ministry of Agriculture recently undertook a mission to Korhogo, in the north, to assess the trading conditions in the sector and to deal with the problem of outstanding payments to growers. Again, however, the obstacles linked to the division of the country, particularly the absence of government in the north, may impede effective reorganisation of the sector. Only the end of the political crisis in the country will effectively enable the rehabilitation of cotton.

Mining-sector activity remained steady in 2004 thanks to the continued expansion of oil extraction (8 124 billion barrels, 8.2 per cent more than in 2003) and to increases in gas production. Although the Ity mine, which had been closed in 2002, was reopened, gold production (1 219 kg) was no greater than the previous year. No figures relating to diamond production are available due to its location in the regions controlled by the Forces Nouvelles.

As political turmoil built up in late 2004, the secondary sector as a whole paid a high price for the crisis. Growth is likely to stagnate in 2006. The textile sector should be mentioned among the affected activities: its main production units, which are in the rebel stronghold region of Bouaké, are closed. In the south, the few factories of the sector have to cope with unfair competition from illegal imports, such as for example that of cheap sugar from Asia entering the country via Burkina Faso. The Société Ivoirienne de Raffinerie (SIR), the national oil refinery, lost 100 000 tonnes of its annual market share in oil refining in the north of the country to the benefit of Malian and Burkinabe suppliers.

The tertiary sector has been by far the worst hit by the crisis. In 2004, it contracted by 0.5 to 1 per cent, with a 5 per cent drop in the overall activity of service companies. It is paying not only for direct and indirect war damages, but also for the policy of closing or relocating certain companies in the subregion. Every branch of the sector recorded significant decreases. Retail sales, for example, fell by 0.6 per cent overall in the course of 2004. This drop was due to the lower income of households affected by the closure of factories, technological unemployment and the departure of expatriates. The Central Bank of West African States (BCEAO) trade index was estimated at 1 per cent for 2004. Hotels and restaurants are in deep trouble due to the departure of expatriates and the absence of tourists, as are both the insurance and construction sectors. In this context, even employers are encouraging the companies still operating to take advantage of opportunities in the informal economy. The tertiary sector is likely to suffer the longest from the crisis.

Private investment stagnated in 2004 compared with 2003, and it contracted in 2005. This situation

Table 1 - Demand Composition (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**14.7**	**11.0**	**9.8**	**9.4**	**8.7**	**8.9**	**9.1**
Public	5.5	3.3	2.7	2.3	2.0	2.1	2.3
Private	9.3	7.7	7.1	7.1	6.7	6.7	6.8
Consumption	**76.2**	**69.7**	**75.6**	**81.0**	**87.1**	**87.2**	**86.7**
Public	11.0	12.3	13.4	14.2	13.9	14.1	14.0
Private	65.2	57.4	62.1	66.8	73.2	73.1	72.7
External sector	**9.1**	**19.3**	**14.7**	**9.6**	**4.2**	**4.0**	**4.3**
Exports	38.3	46.5	43.3	45.7	44.0	44.5	43.7
Imports	29.3	27.1	28.6	36.1	39.8	40.5	39.4

Source: INS data; estimates (e) and projections (p) based on authors' calculations.

will probably continue in 2006 and 2007 as a result of the uncertainty of the electoral process. Despite the events of 2004, private consumption rose in 2004 and 2005 and should be stable in 2006 and 2007. The increase in the fiscal deficit as a percentage of GDP in 2004 stimulated growth, but the decrease in the surplus in the balance of payments on goods and services weakened growth. The fiscal deficit increased further in 2005, and the balance of payments also improved. All of these factors were thus positive for GDP growth in 2005.

Owing to the uncertainty related to the mobilisation of the foreign resources essential for financing investments, and given the deadlock in resolving the political conflict, final public consumption was expected to fall in 2005. It could, nevertheless, rise slightly in 2006 if the nomination of the prime minister and the formation of his government, as well as the October 2006 elections, bring about the expected stability. Final public consumption was expected to fall from 14.2 per cent of GDP in 2004 to 13.9 per cent in 2005, before rising slightly in 2006 to reach its 2004 level. Final private consumption should also rise marginally in 2004 and 2005 and could become stable in 2006. Investment, both public and private, should shrink, given the difficulties of foreign financing and the hesitancy in the private sector. Normalisation of the social and political situation is key to restoring confidence among economic players, notably among foreign investors. If the elections take place as expected, there could be a gradual recovery of private investment in 2006 and 2007 (see Table 1).

Macroeconomic Policies

Fiscal Policy

The 2005 budget, approved by parliament in April 2005, provides for a drop in both receipts and expenditure. Its priorities remained the same as in 2004: disarmament, reunification of the country and the organisation of elections as guarantees for national reconstruction and economic recovery. Exceptional expenditure connected to the "peace effort" was budgeted. As much as 6 billion CFA francs was earmarked for restructuring public administration and 1.2 billion CFA francs for implementing the Linas-Marcoussis Agreement. In addition, significant expenses were planned for the "cost of the crisis", including bonus wages for front-line soldiers (30 million CFA francs). Funds were also provided for organisation of the presidential election: to identify the population, prepare consultation of the electorate and finance the political parties. Based on a 1 per cent growth assumption, the 2005 budget is presented as almost balanced at 1 735 billion CFA francs. Internal resources (82 per cent of the budget) are estimated at 1 420 billion CFA francs, including 1 258 billion in tax receipts (compared to 1 263 billion CFA francs voted in 2004 and respected on the whole 25 billion in grants), 122 billion in non-tax revenue and 40 billion from borrowing on the financial market. Tax receipts and grants continued practically at their 2004 level, that is, 18.5 per cent of GDP. They should remain stable at that level throughout 2006 and 2007, assuming that the political situation is maintained.

Recurrent expenditure recorded a slight drop, from 1 006 billion CFA francs in 2004 to 990 billion in 2005. It was supposed to be essentially devoted to paying the wages of civil servants and to the remaining administrative costs, including exceptional costs related to the crisis. This decline should continue in 2006 and 2007 (see Table 2). Investment expenditure came in at 177 billion CFA francs, compared with 270 billion scheduled in the 2004 budget, 168 billion of which were realised. Of this amount, 94.9 billion were allotted to the national reconstruction programme, 21.3 billion to decentralised management, and 4 billion to revising the electoral register and the population-identification plan. The sector breakdown of budgetary allocations shows that seven departments take up more than 85 per cent of the budget, excluding debt servicing. These are public education (28.2 per cent of the total), the economy and finances (17.7 per cent), defence (13.1 per cent), health (7.4 per cent), higher education (7 per cent), economic infrastructure (6.1 per cent) and security (6 per cent). The incompressible expenditure intended for the return of peace will limit the investment capacities of technical ministries all the more. The defence budget amounts to 38.5 billion CFA francs.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**20.2**	**18.4**	**17.6**	**18.5**	**18.5**	**18.4**	**18.2**
Tax revenue	16.4	15.9	15.0	15.2	15.6	15.6	15.3
Grants	0.6	0.4	0.5	0.9	0.5	0.3	0.5
Total expenditure and net lending[a]	**22.0**	**19.9**	**20.2**	**20.4**	**19.2**	**19.3**	**19.4**
Current expenditure	16.5	16.5	17.4	17.7	17.0	16.8	16.8
Excluding interest	*12.0*	*13.2*	*14.7*	*15.4*	*15.1*	*15.3*	*15.2*
Wages and salaries	6.0	6.5	6.8	6.7	6.6	6.4	6.2
Interest	4.5	3.3	2.7	2.3	1.9	1.6	1.6
Capital expenditure	5.5	3.2	2.7	2.6	2.2	2.4	2.5
Primary balance	**2.7**	**1.8**	**0.1**	**0.4**	**1.2**	**0.6**	**0.4**
Overall balance	**1.8**	**1.5**	**2.6**	**1.8**	**0.7**	**0.9**	**1.2**

a. Only major items are reported.
Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

To the extent that the government is still facing financial difficulties that restrict its ability to honour these commitments, implementing this budget will be complex.

The collapse of some sectors of the economy and the closure of many small and medium-sized companies (SMEs) have damaged the domestic tax base, forcing the government to depend primarily on the tax levies on cocoa. During the first months of 2005, however, an attempt was made by the government to increase taxes on several goods and services, for example in the sector of transport in urban areas and in that of poultry imports. This had little effect on public finances and, in addition, led to threats of strikes in the affected sectors. Other factors have been obstacles to increases in the domestic revenue. Several SMEs practice tax evasion, which is on the rise; they perceive this as a way of remaining in business during the crisis. As for exporters, they will be able to benefit from a VAT reduction on goods and services. For pineapple producers, the rate of the withholding tax on sales profits has been reduced from 2.5 per cent to 1 per cent. The Société des Transports Abidjanais (SOTRA), finally, has been exempted from VAT and customs duties on its acquisition of goods until December 2007.

On the whole, the situation of companies has worsened. In its fiscal policy, the government has thus provided for a range of measures aimed at rebuilding trust and stimulating business. It has established a classification system distinguishing totally or partially damaged companies from those indirectly affected (whose turnover dropped by at least 50 per cent in the last quarter of 2004). Depending on the classification, specific tax regimes (often including exemptions) are applied, in particular to fixed taxes and profit taxes, and to employers' contributions of end-2004 and 2005.

Monetary Policy

Monetary policy is conducted regionally by the BCEAO. Its primary objectives are to maintain parity between the CFA franc and the euro and to control inflation in the zone. The policies implemented by the BCEAO track those of the European Central Bank (ECB). The few divergences observed in BCEAO and ECB rates occur because for its members, the BCEAO takes into account their economic situation, the inflation rate and the liquidity of the banking sector. The inter-bank rate in 2005 was estimated to be unchanged, at 4.88 per cent, reflecting the stability of the quarterly inter-bank rate in the euro zone (2.1 per cent). In 2006, interest rates could increase if euro-zone interest rates rise to 2.2 per cent.

Despite the major disruptions to the economy, inflation was controlled, going from an average of 1.4 per cent in 2004 to 2 per cent in 2005. This was due to several factors: first was the good supply of food to the market and a rigorous monetary policy conducted by the BCEAO. In addition, consumers adapted their behaviour to the crisis by reducing their spending and buying more local products. Trade in basic foodstuffs was sustained, and no food shortages were noted. The slight rise in inflation was primarily due to increased electricity prices and transport costs. The rise in international oil prices affected the inflation rate both directly and indirectly in 2005, but inflation should remain within the limits of the West African Economic and Monetary Union (WAEMU) convergence criteria, that is, 3 per cent annually. In 2006, inflation could be around an annual average of 3 per cent.

External Position

The economy of Côte d'Ivoire, which relies largely on its agricultural exports, is characterised by a positive trade balance, but which has been declining since 2002. Control of the cocoa production in the midst of the crisis constituted a considerable benefit in the structure of the balance of trade. In 2005, exports recovered slightly compared with 2004.

Cocoa accounted for one-third of all exports in 2004 with 1 061 000 tonnes of bulk cocoa and 276 000 tonnes of processed cocoa, equal to 345 000 tonnes of beans. Bulk cocoa accounted for three-fourths of the country's agricultural exports, while processed cocoa accounted for two-thirds of processed-food exports. Oil exports are rising. Refined oil increased particularly in 2004, following the resumption of oil-refining activities in the country. They increased by 38 per cent in volume and 64 per cent in value. Oil-product exports (including crude oil) thus recovered, in both volume and value, their 2000 level, totalling almost 15 per cent of exports, or 640 357 million CFA francs. Jet oil, gas oil and crude oil made up three-fourths of all Ivorian oil exports. The primary destinations for the refined products were Nigeria and the United States, which respectively accounted for 35 per cent and 14 per cent of the total volume. Côte d'Ivoire thus reasserted its industrial and export power, and its role in regional energy supply.

Imports to Côte d'Ivoire rose in 2005 compared with 2004. Automobile imports increased by approximately 65 per cent in value. This rise was of greater benefit to used-car imports, which accounted for two-thirds of registered vehicles. Medicine was the third largest import item according to the integrated tariff of the European Communities (TARIC) ten-digit system, after oil and rice. It increased by 14 per cent to 79 873 million CFA francs. Crude oil (with 20 per cent of total imports) remains the leading import item of the country. The 14 per cent rise in volume and the jump in oil prices raised the bill by 76 per cent. These imports were met by Nigerian production.

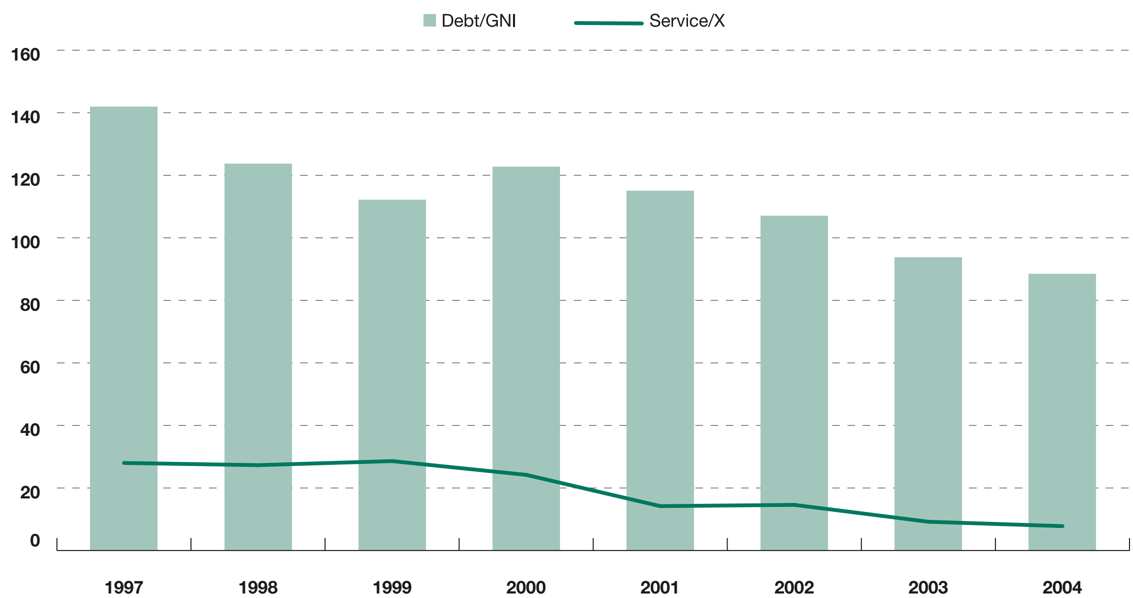
Aggregate trade with the 25 member countries of the European Union (EU-25) reached 2 275 billion CFA francs. The EU-25 accounted for 42 per cent of supplies to Côte d'Ivoire. The Economic Community of West African States (ECOWAS), on its part, accounted for 25 per cent of aggregate trade, or 1 308 billion CFA francs, with a trade surplus of 236 billion CFA francs for Côte d'Ivoire. France

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	11.4	24.1	18.5	17.5	12.3	12.1	12.3
Exports of goods (f.o.b.)	35.0	44.5	40.9	43.3	41.6	42.0	41.3
Imports of goods (f.o.b.)	-23.6	-20.4	-22.4	-25.8	-29.3	-29.9	-28.9
Services	5.5	8.4	8.1	8.2			
Factor income	7.0	5.5	4.8	4.5			
Current transfers	3.2	4.0	3.5	3.0			
Current account balance	**4.2**	**6.2**	**2.0**	**1.8**			

Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

remained the leading trade partner. It was its second supplier, overtaken slightly by Nigeria. In 2005, Ivorian imports rose slightly, going from 25.8 per cent to 29.3 per cent of GDP. This trend should continue in 2006. In terms of exports, there was a slight fall in 2005, from 43.3 per cent of GDP in 2004 to 41.6 per cent. Still, if all parties adhere to the peace process, exports should improve in 2006 (Table 3).

In 2005, economic operators in Côte d'Ivoire adopted an attitude of caution waiting for the presidential election. In November 2004, they had already seen the upheaval wipe out most of the gains from that year's recovery of industrial activity. Consumption thus slowed in 2005. If the peace process unfolds well, 2006 should be an improvement over 2005. Nonetheless, the institutional and organisational problems faced by the cocoa sector and the low remuneration of farmers (due to weak world prices) have imperilled the 2004/05 harvest. This latter has proved to be less prosperous than previous years, compounding the decline in cocoa revenues. The persistent smuggling of cocoa to Ghana in response to the sustained pressure on grower prices only makes these problems worse. Provided that oil prices remain very high, the rise in oil exports should, however, compensate the state for the reduction of cocoa revenues and could account for a significant share of the country's revenue. Thus, export revenue is expected to rise in 2005 to 6 billion dollars. Finally, the surplus in the Ivorian trade balance should improve if the country is reunified.

Côte d'Ivoire means to attract international investment by improving the business environment. It is planning to reinforce public-private partnerships and to implement an investment code that will guarantee legal security and the security of goods and people. In 2002, according to the United Nations Conference on Trade and Development (UNCTAD), the country was not among the African states most affected by the overall regression of foreign direct investment (FDI). Ranking 78th in the list of countries receiving the most FDI in the world, it is in 4th place among sub-Saharan African countries, behind South Africa, Angola and Nigeria. The economy shows signs of vitality and offers many diversification opportunities. These include private-sector projects supported by multiple partners, such as the construction of the Chinese embassy and the inauguration of that of the United States in August 2005. The country thus means to diversify its partners while continuing to rely on France, its historical partner.

The deterioration of the country's external financial position runs the danger of casting doubt on the financial aid of the Bretton Woods institutions and of jeopardizing the reactivation of the debt-reduction process under the Heavily Indebted Poor Countries (HIPC) Initiative. This deterioration is characterised by an accumulation of arrears of payment due to the failure of meeting obligations to public and private creditors. The latest relief granted to Côte d'Ivoire goes back to April 2002. Marking the resumption of financial co-operation with its external partners, $911 million of debt were cancelled and debt servicing was reduced from $2.26 billion to $750 million between 1 April 2002 (date of the agreement with the Paris Club partners) and 31 December 2004. The debt reduction granted by foreign creditors required Côte d'Ivoire to comply with the three-year Poverty Reduction and Growth Facility (PRGF) Arrangement negotiated with the International Monetary Fund (IMF). This should have enabled further relief once the decision point of the HIPC Initiative had been reached. The process was, however, put on hold because of the crisis. At the end of 2003, the external debt of Côte d'Ivoire amounted to $12.2 billion, including $733 million in arrears of payment accumulated between 2002 and 2003. Multilateral debt accounted for approximately one-third of this total, more than 60 per cent of which was held by the World Bank. Members of the Paris Club held about two-thirds of bilateral debt, and the commercial banks in the London Club held the balance. In 2004, foreign debt equalled about 80 per cent of GDP, and debt servicing about 7.8 per cent of goods and services exports. Once again, the resumption of financial co-operation with Côte d'Ivoire remains dependent on the normalisation of the political situation and the agreement of all creditors concerned.

Structural Issues

Recent Developments

Côte d'Ivoire has always built infrastructure in compliance with international standards. Telecommunications services are good and include a public data network. New Information and Communication Technologies (NICTs) are indisputably part of the country, with a SAT-3 landing point in 2005, Internet access and several long-distance communication centres. Land-line telephony has been liberalised. Mobile telephony is growing strongly, with two large competitors – Orange and Telecel – sharing the market. In 2005, MTN, a South African telephone provider, entered the country and should become a serious competitor in the coming years. In 2004, this sector counted 1.5 million consumers. A new telecommunications code was promulgated in 2005. Infrastructure development has transformed Côte d'Ivoire, both commercially and industrially, into a modern state. The economic capital, Abidjan, however, which was considered the business centre of West Africa, has lost its place due to the crisis. Trade in the subregion now takes place via Senegal, Togo and Ghana.

The Ivorian education system, which complies with regional standards, includes international institutions with programmes based on those of excellent American and French schools. However, many have had to close since November 2004. The recent economic and political problems have also delayed scheduled public investments. The project to set up a biotechnology and NICT free zone has not yet been started up, despite the fact that it would open non-negligible investment opportunities. Even though the government had made rural electrification a priority – seeking to connect 200 villages to the national network each year –a great many are still not equipped. Currently, approximately 25 per cent of the rural population has access to electricity, compared with 77 per cent in urban areas and 88 per cent in Abidjan. Here again, for infrastructure development to resume and Côte d'Ivoire to fulfil its potential of leading economy in the subregion, the return of political stability is absolutely essential.

The November 2004 hostilities were a background for looting that resulted in the destruction or closure of more than 150 SMEs, mostly held by the French community. A good number of Ivorians lost their jobs in the process. According to the Côte d'Ivoire Chamber of Commerce, some 30 000 jobs were lost in the space of a week. Even prior to these events, unemployment figures were not encouraging. Statistics from the national social welfare fund, the Caisse nationale de prévoyance sociale (CNPS), show that the 41 000 companies registered in the country employed only 478 000 of the 18 million Ivorians. Almost 64 per cent of the population is under 24 years old, and many young people are unemployed. To assist companies that were partly or totally destroyed, the state adopted special tax measures. These include, among others, employer contribution exemptions for the entire 2005 business year for all affected companies, VAT exemption on fixed assets that were destroyed, exemptions to fixed taxes as well as on profits and on employer taxes of end-2004 and 2005. These reforms should allow many economic operators to stabilise their finances.

The institutional and financial system for SMEs is maintained by several organisations: the Ivorian business institute, Institut Ivoirien de l'Entreprise, (INIE); the management centre, Centre de Gestion Agrée (CGA); and the Ivorian national business development fund, Fonds Ivoirien pour le Développement de l'Entreprise Nationale (FIDEN). Financial services for SMEs are mostly provided by an SME guarantee fund, the Fonds de garantie aux PME (FGPME). It is active in the sphere of all economic activities and offers a guarantee to financial institutions of 70 per cent of the project cost to a limit of 150 million CFA francs. Credit lines in secondary banks exist as an alternative to financing from international institutions. Access to banking services remains difficult, however. Financial institutions are also increasingly reluctant, given the high commercial risk associated with the political turmoil and the asymmetry of information.

In Côte d'Ivoire, the financial sector is in an oligopolistic situation. The large banks and new players (for example, the Bank of Africa) are attempting to expand to ensure access to banking services. The low rate of access to the banking sector in the country remains a major problem, however. The banking system includes 18 credit institutions (against 22 in 2003), 16 of which are banks (10 in 2003) and 2 financial institutions (5 in 2003). This fall in the number of in banks is the result of the opening of the agricultural finance bank, the Banque pour le Financement de l'Agriculture, and mergers and acquisitions between the Société Générale de Financement et de Participation en Côte d'Ivoire and the Société Générale de Financement par Crédit-Bail. The disappearance of three credit institutions since 2003 is due to the withdrawal of the authorisation of the Fonds de Garantie des Crédits aux PME and to the merger-acquisition of Afribail-Côte d'Ivoire and the Compagnie Financière de la Côte d'Ivoire by the Société Générale de Banque en Côte d'Ivoire (SGBCI). Among the banks are eleven credit and general-banking institutions, one housing bank, two institutions specialised in SME financing, one bank specialised in agricultural financing and one national investment bank (formerly the Caisse Autonome d'Amortissement [CAA], which managed the public debt). The majority of financial institutions are focused on plant and property leasing.

The Ivorian banking sector is quite concentrated: the four main institutions account for approximately three-fourths of the total net assets (excluding the Banque nationale d'investissement [BNI]). Ivorian credit institutions account for 31.3 per cent of all WAEMU bank balances, a share significantly lower than that of the Ivorian GDP in the regional economy (37 per cent). In 2005, the spotlight was to be on microfinance. Prior to the outbreak of the crisis, the development prospects of this sector were significant. In 2000, for example, the country counted 16 microfinance institutions, offering a total of 287 points of service (for about 331 000 customers), compared with 154 bank branches. The Bourse des Valeurs Mobilières Régionales (BVRM), located in Abidjan, offers alternative regional financing by enlarging the financial and banking market. This organisation suffered enormously from the crisis, however, due to the prevalence of Ivorian companies on its books.

In the past three years, non-tax receipts – privatisation earnings – grew from 4.3 billion CFA francs in 2003 to 9.3 billion in 2004. Since 2002, these have involved only marginal public holdings, with the exception in 2004 of shares in the country's two largest banks, which were already subsidiaries of French banks (Société Générale and BNP-Paribas). During these three years, the difference between projected and actual privatisation earnings amounted to 26.5 billion CFA francs, or more than 50 per cent on average for the period. This reflects the incompatibility of the privatisation processes with the troubled period. The Ivorian state is still planning to withdraw from seven more companies in the coming years. These include: the SICOGI (construction and land management company), the SOTRA (Abidjan transport company), the COTIVO (Ivorian cotton company), HEVEGO (hevea company in Go), the SIB (a banking organisation), a 51 per cent subsidiary of the Crédit Lyonnais, the SIVAC (Ivorian slaughter and meat processing company) and the SIPEF (international palm plantation and finance company). Missing from this list of companies to be privatised is the SIR (the oil refining company), which is the last truly attractive public holding remaining. It is in fact the leading Ivorian company in terms of its turnover, $803 million in 2003. Yet its sale was considered crucial by the World Bank for rebuilding the Ivorian energy sector. An initial attempt at privatising the SIR was abandoned in 1999 (it had been awarded to the French company, Total, then cancelled by a court judgement). In 2003 and 2004, the company benefited from new market conditions in oil and was able to realise highly profitable margins. Freed from pressure from international organisations (which suspended operations in Côte d'Ivoire due to the crisis), the local authorities no longer intend to privatise the SIR, nor in fact Petroci, a company regrouping public holdings in oil and gas fields.

Transport Infrastructure

The inter-city road network in Côte d'Ivoire comprises more than 80 000 km of roads, including 6 500 km of paved roads. Urban roads account for about 10 per cent of the inter-city network, or around 7 000 km. The present value of this network is estimated at more than 4 000 billion CFA francs. The dirt-road network counts 20 000 km of extremely deteriorated roads and 150 000 km of impassable roads, which are interrupted at 523 points in 220 sections. The service of the network is generally very poor. The residual road surface and the width of the roads are so reduced that the average speed hovers around 35 km/hour. The road surface of the network, which was designed theoretically to last 15 years, is also seriously damaged. About 63 per cent of the network (4 100 km of paved road) are between 15 and 32 years old and need to be rehabilitated or reinforced. These repairs, estimated at 410 billion CFA francs based on an average current cost of 100 million CFA francs per kilometre, have become very urgent.

The country has a single railway line, which links Abidjan to Ouagadougou in Burkina Faso. It stretches over 1 156 km in Côte d'Ivoire and 518 km in Burkina Faso and is marked off with 35 stations and 18 stops. The network is managed by the Société d'exploitation des chemins de fer (Sitarail). A rail investment fund, the Fif, was set up with resources from the states and Sitarail to ensure future financing.

Côte d'Ivoire has two deep-water ports, Abidjan and San Pedro. The port of Abidjan (for its harbour zone) extends over 770 hectares and shelters 60 per cent of the country's industries. It is the largest tuna port in

Africa. It has 33 berths on approximately 6 km of quay, with a capacity to handle 60 commercial boats with a number of specialised berths, a container terminal with four berths and three heavy gantry cranes for containers. The total quay level surface area is 407 568 square metres, for 143 507 square metres of warehouses and hangars. A port expansion project was developed but could not be launched because of the crisis. The port of San Pedro is equipped with two quays totalling 736 metres. The 155-metre south quay has a 4 000-square-metre warehouse dock at the rear. The 581-metre west quay is equipped with two warehouse docks of 4 800 and 5 000 square metres, a 250 tonnes/hour subterranean pipe for pumping palm oil into the ships, a 150 tonnes/hour grain conveyor for unloading wheat, a total of 9 hectares of quay level surface and a cement berth. An extension of the San Pedro port is also planned to the north of the current port to enable it to bolster its industrial role.

Prior to the crisis, Côte d'Ivoire had 3 international airports (Abidjan, Bouaké and Yamoussoukro), 14 regional airports (the main ones being Daloa, Korhogo, Man Odienné and San Pedro) and 27 airfields. All the airports were management by a public organisation, the Agence nationale de l'aviation civile et de la météorologie (ANAM), except for the activities carried out by the Agence pour la sécurité de la navigation aérienne en Afrique et à Madagascar (ASECNA) security agency. The Abidjan airport carries 90 per cent of the traffic and accounts for more than 95 per cent of the revenue of the sector. It is privately managed, following the signing of a contract with AERIA, a company set up in association with the Chamber of Commerce of Marseilles. Since 2002, air traffic has declined noticeably, and, with the exception of Abidjan, the airports have undergone extreme deterioration.

Political and Social Context

For more than three years, Côte d'Ivoire has been divided into the southern region, controlled by the government, and the northern region, held by the rebels. Despite some progress made in the national reconciliation process in 2005, the country remains at a political deadlock. The President of South Africa, Thabo Mbeki, the most recent international mediator to date, is attempting to advance the peace process. Among the notable changes to his credit is President Laurent Gbagbo's new stance with regard to Alassane Ouattara, the leader of the opposition Rassemblement des Républicains de Côte d'Ivoire (RDR). The president conceded to use his special powers to allow Ouattara to be a presidential candidate, in contrast to the previous election in 2000. Ouattara returned from his voluntary exile in February 2006. The Security Council resolution 1633 of 21 October 2005, which ratified the African Union (AU) decision of 6 October 2005, decided to maintain Laurent Gbagbo as head of state for a period of twelve months. It imposes upon him a prime minister with enlarged powers, who is to lead the transition. His government has the priority goals of disarmament, reunification of the country and preparing the presidential election of October 2006. Disarmament, which has been postponed several times, should affect some 42 000 soldiers. The new government will not have an easy task. The rebels could first insist on the disarmament of the pro-government militia before disarming themselves, while the G7, a coalition of four opposition parties, is seeking to contest the national statistics institute, Institut national de la statistique (INS) in its constitution of the electoral register. According to the G7, this responsibility belongs to the independent electoral commission, the Commission électorale indépendante (CEI). Another prerequisite for presidential elections is the restoration of public administration in the regions under the control of the Forces Nouvelles. This is far from being achieved: despite the return of a few public servants (doctors, nurses and teachers for the most part) to the rebel zone, the resumption of administrative services is restricted to a few towns close to the ceasefire line. The Pretoria Agreement of April 2005 recommended to the AU and to the United Nations (UN) Security Council to impose appropriate sanctions on all parties that block the peace process. Resolution 1572 of the Security Council of 15 November 2004 had already authorised travel ban and asset freezing of any individual that might hinder the peace process. A confidential list of those who could be subject to these sanctions was even compiled by the UN. However, it was not followed through. South African mediation, largely supported by the international community, was extended in October 2005 (during the Addis Ababa summit, not attended by the President of Côte d'Ivoire) by the AU Security Council. On the front line, tension rose in the west after the massacres near Duékoué in June 2005. The region was subsequently placed under military control. The town of Agboville was also the site of an attack, which followed an assault on the Anyama police squad and police station, during which nine people were killed by the assailants. Large stocks of arms were stolen. The January 2006 attack on two military camps in Akouédo caused tensions in Abidjan to increase and cast doubt on the possibility of gradual pacification and return to peace.

The UN decided to deploy 850 additional peacekeeping soldiers to reinforce the UNOCI (United Nations Operation in Côte d'Ivoire) contingent of 6 000 already in place. It also raised the possibility of calling on peacekeeping forces currently in Liberia and Sierra Leone, and authorised the deployment of 375 additional civil police (the contingent currently counts 725 police). UNOCI's peacekeeping mandate was extended to 24 January 2006. Among those enforcing the mandate are 4 000 French soldiers from the Force Licorne.

Health and education have suffered greatly from the crisis. Since September 2002, hospitals and clinics in the north have received no government funding. The majority of labourers in this region have migrated south. According to the UN Population Fund, life expectancy at birth for the 2000-05 period was 46 years. Infant mortality was 118.3 per 1 000. The World Bank puts the mortality rate for children under five years at 191 per 1 000.

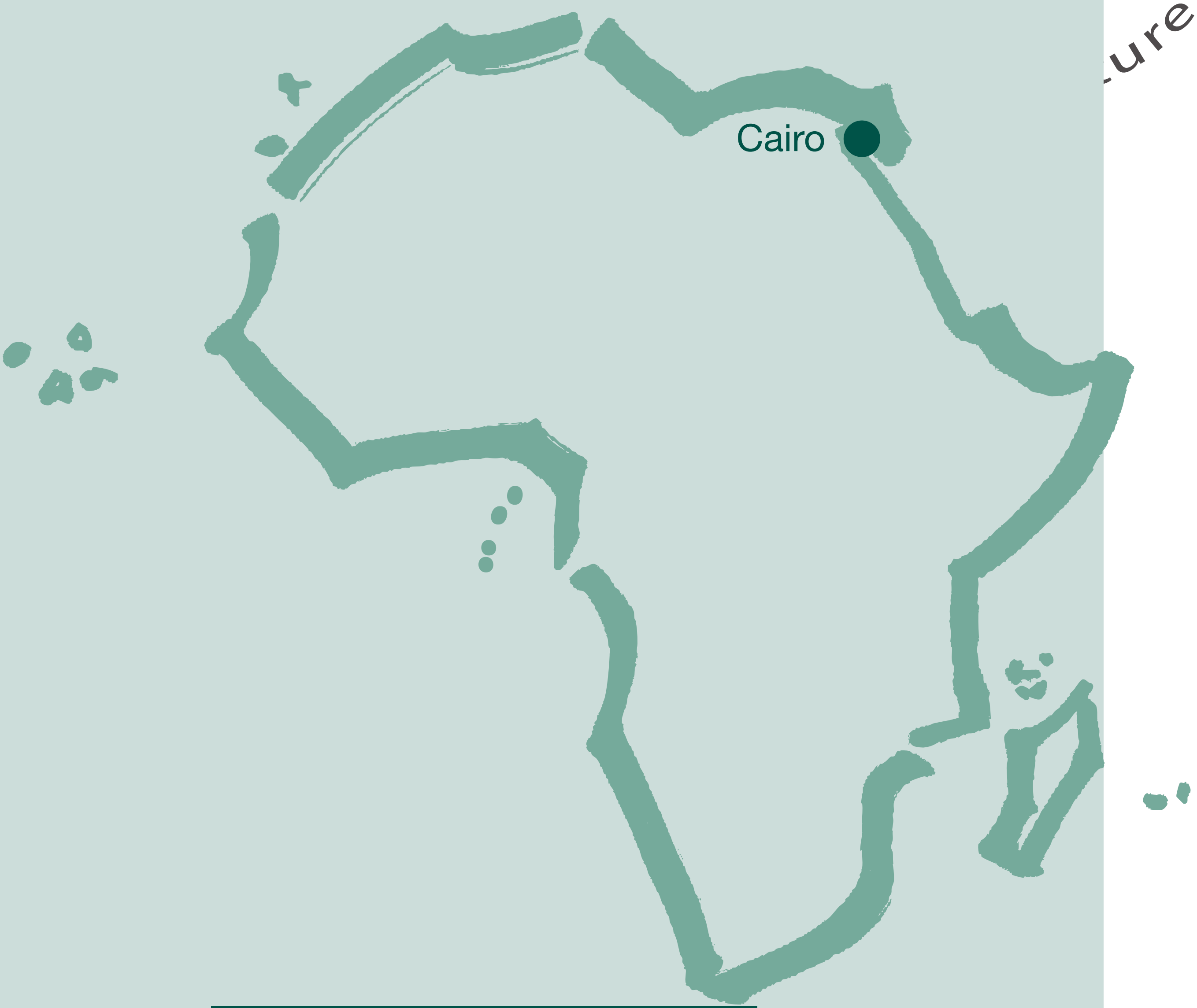
The social items of the government programme have been mostly frozen by the crisis. These include, in particular, free school books for children, and access to drinking water and health care for all. Plans for universal health insurance and to distribute antiretroviral medicines to those affected by HIV/AIDS have also been put on hold.

According to the Global Fund to Fight AIDS, Tuberculosis and Malaria, the crisis has resulted in the displacement of around 800 000 people, bringing about sexual promiscuity that could result in a strong rise in HIV/AIDS. Côte d'Ivoire is one of the countries most affected by the pandemic in West Africa, with 7 per cent of its 16 million inhabitants carrying the virus in 2003, according to UNAIDS. The infection rate today is stated to have reached 9.5 per cent of the population, but health workers estimate that this figure does not reflect what is a much more serious reality. To assess the true dimension of the phenomenon, it would be necessary to perform an new assessment of the disease. At the end of 2003, 570 000 people (children and adults) were living with the virus, among which there were 300 000 women from 15 to 49 years of age and 40 000 children under the age of 15. The number of deaths was estimated at 47 000 in the same year, while 310 000 children had lost at least one of their parents to AIDS. In September 2004, the government announced the first nationwide survey on HIV/AIDS, but this project has remained in limbo. Again, the crisis is responsible for the delay and is also a major obstacle in the campaign. The goal of treating 63 000 HIV-positive patients by end-2005 has become unrealistic. Several care units in the west have been destroyed, and a number of health facilities have been closed in the north, where medical workers remain reluctant to go.

The crisis also paralysed national education, which has still not found its bearings. In 2005, success rates in schools and universities were low. Several schools were closed in the rebel-controlled zones. The few institutions that strived to remain open did not function properly and had to call on volunteers (about 4 500 in two years) to replace public teachers who had fled to the south. The University of Bouaké, totally sacked at the start of the crisis, opened a temporary campus in Abidjan. While 12 000 students managed to flee the north, those remaining in Bouaké are deprived of schooling. The Ministry of Higher Education asked UNOCI and the government of Japan to underwrite the reconstruction of the University of Bouaké, estimated at 7 billion CFA francs. The launch of this project stands in contrast to the political stalemate.

Resuming economic and social activity after the conflict is proving difficult. In-depth evaluations to assess specific needs are necessary in order to implement appropriate programmes. The social priorities for 2006 and 2007 should target food security, health, water and hygiene, protection, and education, with urgent aid for the vulnerable. Efforts should also be made to redeploy teaching and medical staff in the north, and to encourage the return of displaced persons. This cannot take place without protection measures for these persons. The government will also have to make a priority of rebuilding health centres and schools, and of supplying them with medicine and teaching material. The development of agricultural activity, particularly the reconstitution of herds, should also be a key element in stabilising the living conditions of the most vulnerable parts of the population. Finally, the state will also have to tackle rebuilding national cohesion and reducing inter-community and inter-ethnic tensions in a country that was actually accustomed to cultural diversity. All Ivorians will have to learn to live with each other again, for they are linked together by a common historical destiny. Promoting cultural diversity is most likely to give rise to a strong civil society that will be able to build a society free of ethnocentrism and religious tension.

Egypt

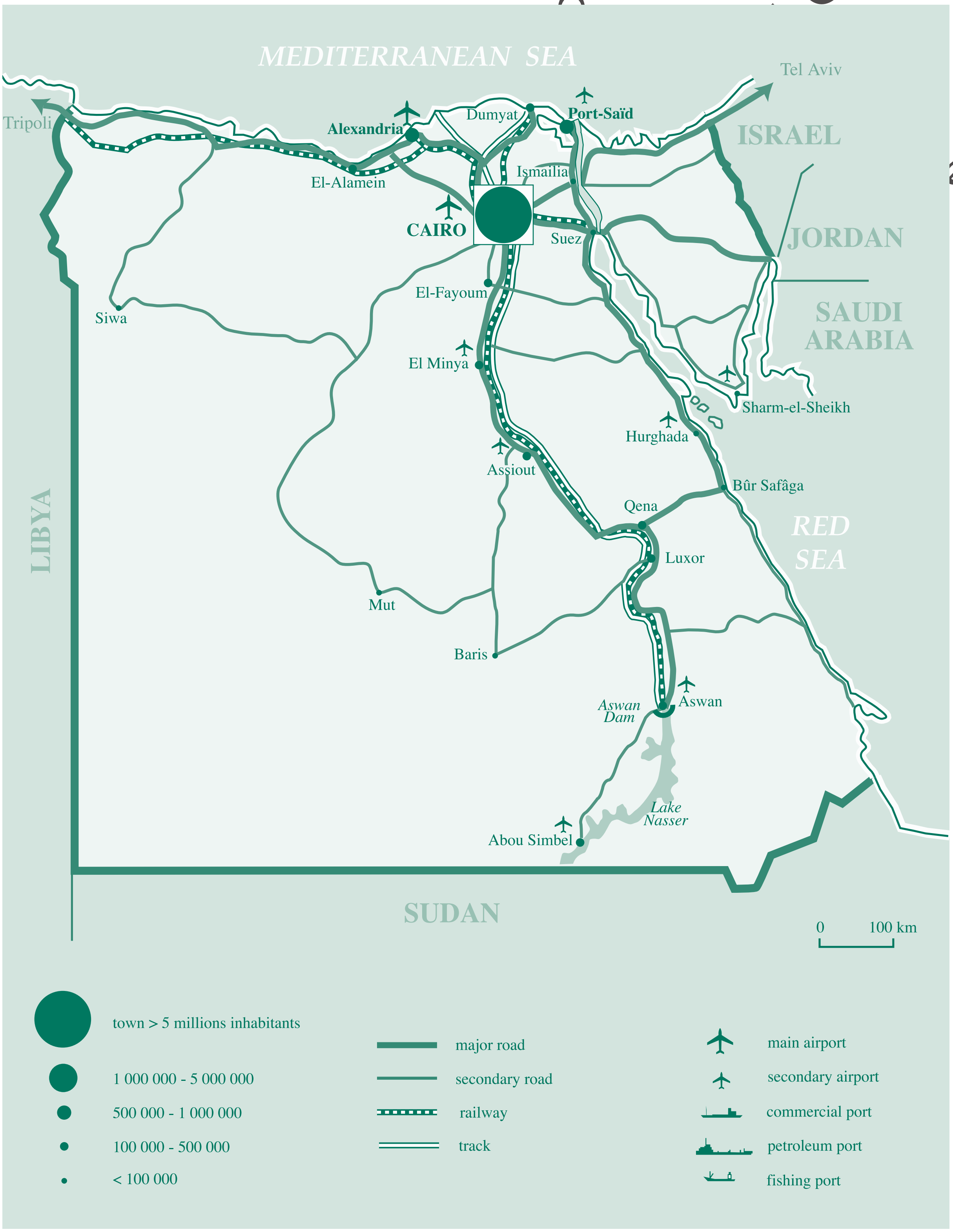


key figures

• Land area, thousands of km²	1 001
• Population, thousands (2005)	74 033
• GDP per capita, $ PPP valuation (2005)	4 100
• Life expectancy (2000-2005)	69.6
• Illiteracy rate (2005)	40.8

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/446300631564

Egypt

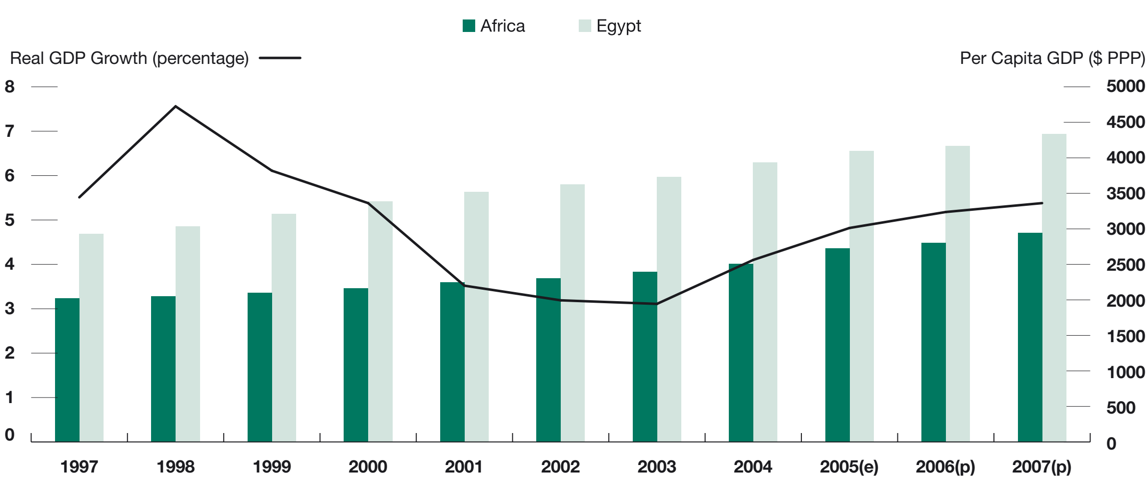


AN AMBITIOUS EFFORT TO OPEN UP and liberalise the economy initiated in mid-2004 has begun to produce results. GDP growth in 2004/05 was almost 5 per cent (with 5.2 per cent predicted for 2005/06 and 5.4 per cent in 2006/07), and the main macroeconomic indicators were performing well[1]. The energy, transport and tourism sectors were the drivers of growth. Although access to credit is still a problem for the private sector, the business climate has significantly improved, privatisation is pushing ahead, and domestic and foreign investment is on the rise, suggesting good long-term growth prospects. The recent foreign exchange shortages and double-digit inflation have been dealt with. The government will further boost its credibility if it can streamline the banking sector, especially by privatising the country's four biggest banks, and cut the budget deficit (8.6 per cent of GDP in 2004/05) and public debt (9.2 per cent).

The government seems determined to continue reforms to get the private sector more involved in the economy, a crucial issue not just for the country's international competitiveness but also for job creation. Reducing unemployment (nearly 10 per cent of the working population) will require GDP growth of 7-8 per cent over several years. Gender inequality, regional disparities and pockets of poverty are other serious problems, though average social indicators are steadily improving. The year 2005 was also a major election year, with parliamentary elections and the first direct-vote multiparty presidential election. The campaigning stirred up much political debate about ending the state of emergency, election methods, progress towards democracy and the rise in popularity of the Islamist party.

The opening-up of the economy and liberal economic reforms resulted in record foreign investment in 2005 and long-term growth prospects are promising.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and Central Bank data; estimates (e) and projections (p) based on authors' calculations.

1. Egypt's fiscal year runs from 1 July to 30 June. The figures are based on this, and growth rates are calculated with reference to the previous fiscal year.

Recent Economic Developments

Real GDP growth accelerated to 4.8 per cent in 2004/05 (4.1 per cent in 2003/04), largely because of higher world oil prices and increased natural gas production, along with greater domestic demand generated by the government's reforms. The economy withstood external shocks rather well, including political instability linked to the Middle East situation and the end of the Multifibre Arrangement. Growth is expected to reach 5.2 per cent in 2005/06 and 5.4 per cent in 2006/07.

Agriculture's contribution to GDP, which has been falling for several decades, stood at 15 per cent in 2004/05. The sector grew 3.4 per cent over the period thanks to good rainfall, major new irrigation projects and exporters' efforts in major European markets under the European Union (EU) association agreement. Output of wheat soared 32.5 per cent and that of rice (3.2 per cent), fruit (3.8 per cent) and vegetables (10.8 per cent) also rose, while millet was down 15.3 per cent and hops 8.2 per cent. Cotton production by volume, which has sharply declined in recent years, fell again to 260 000 tonnes (from 265 000 tonnes in 2003/04). The 2005/06 national plan earmarks 1.4 billion Egyptian pounds to irrigate at least another 110 000 *feddans* (42 600 hectares) of land in the desert and the Southern Valley.

Oil and gas accounted for 14.6 per cent of GDP in 2004/05 and earned $5.3 billion in export revenue. Oil is still the economy's main source of income, but its importance has been declining for several years as that of gas increases. The country produced about 600 000 barrels of crude a day in 2004/05 and had proven reserves of 2.8 billion barrels, which were expected to shrink to 2.5 billion barrels in 2005/06 as production outstripped new finds. Gas production was 102 million cubic metres a day in 2004/05, up 6.6 per cent on the previous year, with proven reserves of about 1 850 billion cubic metres. Exploration and development of the oil and gas sector were expected to absorb more than 20 per cent of the country's total investment in 2005/06.

Industry accounted for 18.2 per cent of GDP in 2004/05 (up 8 per cent), led by agro-food (sugar and beverages), textiles/clothing (cotton and wool yarn) and construction materials. Construction was also buoyant, thanks to domestic demand for infrastructure and housing. Cement output was 32.5 million tonnes (up from 29.5 million in 2003/04). The private sector is expected to provide 8.5 billion of the total 11.9 billion Egyptian pounds of industrial investment planned for 2005/06.

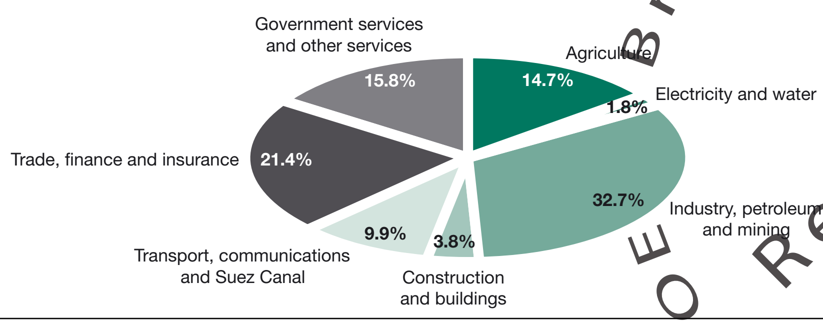
The services sector contributed 47.4 per cent of GDP in 2004/05. Income from the Suez Canal increased 16 per cent in 2004/05 due to increased world trade, especially with India and China (40 per cent of the canal's revenue comes from ships trading with Southeast Asia), and a 35 per cent rise in Panama Canal charges, which caused commercial traffic to reroute through Suez. Charges for use of the canal were increased 3 per cent in July 2005.

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Gross capital formation	**18.2**	**18.3**	**17.0**	**16.8**	**17.4**	**17.5**	**18.1**
Public	5.5	4.0	3.9	3.8	3.6	3.5	3.5
Private	12.7	14.2	13.1	13.0	13.8	14.0	14.6
Consumption	**88.1**	**86.1**	**85.6**	**83.6**	**84.2**	**80.4**	**81.2**
Public	10.1	12.5	12.8	12.8	12.7	12.0	11.9
Private	78.0	73.6	72.9	70.8	71.5	68.4	69.3
External sector	**-6.3**	**-4.4**	**-2.6**	**-0.4**	**-1.6**	**2.1**	**0.7**
Exports	19.5	18.3	21.6	28.9	30.5	32.7	31.4
Imports	-25.7	-22.7	-24.2	-29.2	-32.1	-30.6	-30.7

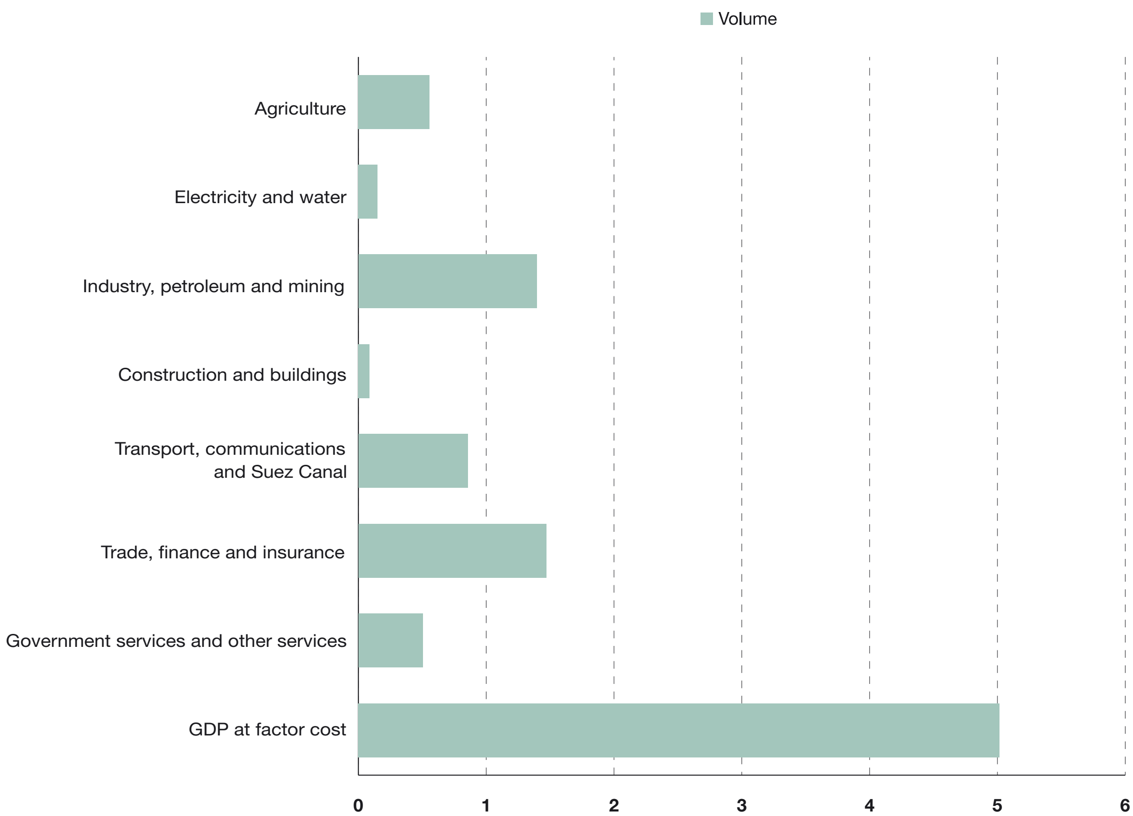
Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on Central Bank data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on Central Bank data.

More than 8.6 million tourists visited Egypt in 2004/05, pumping $7 billion into the economy. The Sharm el-Sheikh attacks in July 2005 that killed 88 people hurt the country's image in markets such as Italy and Israel, but the overall number of tourists rose 6 per cent between January and December 2005, probably helped by the effect of the Asian tsunami on the infrastructure of rival tourist destinations.

Whereas growth in 2002/03 and 2003/04 was driven by external demand, in 2004/05 it was mainly due to a recovery in consumption and investment. Falling inflation, taxes and interest rates helped to boost private consumption 15 per cent in 2004/05 over 2003/04 (3.5 per cent in real terms), though it had not yet returned to the level seen in 2001/02. A bigger budget deficit in 2004/05 also stimulated domestic demand, but the government will have to trim spending in the next few years. Domestic investment demand continued to grow strongly, with real growth of 8.8 per cent in 2004/05 (15.4 per cent in nominal terms), due to modernisation in manufacturing and construction. Total investment amounted to 17.4 per cent of GDP in 2004/05 and is expected to reach 17.5 per cent in 2005/06 and 18.1 per cent in 2006/07 because of increased private investment.

The private sector's share of total investment rose to 54 per cent in 2004/05 (47 per cent in 2003/04) and should rise further in coming years. The Dubai real estate giant Emaar Properties is due to build a $4 billion high-class residential complex in Cairo with 30 000 apartments totalling 4 million square metres. The project is scheduled for completion by 2010.

The domestic savings rate was 15.8 per cent of GDP in 2004/05 (down from 16.4 per cent in 2003/04). External demand rose slightly to 30.5 per cent of GDP (28.9 per cent in 2003/04), driven by the rising share of services in exports.

Macroeconomic Policies

Fiscal Policy

The national budget shows a fast-growing deficit (8.8 per cent of GDP in 2004/05) due to greater expenditure and falling revenue. Two-thirds of the 2004/05 deficit was underwritten by bank loans, mainly from the central bank. The government is expected to reduce the deficit (to 7.7 per cent in 2005/06 and 7.5 per cent in 2006/07) by cutting its spending.

Egypt adopted the IMF's new budget classification system (Government Finance Statistics – GFS) in 2004/05, in line with international standards. This makes budget comparison with recent years difficult and also statistically increases the deficit. The 2004/05 deficit of 8.8 per cent becomes 9 per cent under the new definitions.

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Total revenue and grants[a]	**25.1**	**20.8**	**20.7**	**20.8**	**19.0**	**18.5**	**18.6**
Tax revenue	13.2	11.8	12.9	12.8	12.6	12.3	12.5
Grants	2.8	1.0	0.7	0.6	0.5	0.4	0.4
Total expenditure and net lending[a]	**26.1**	**26.7**	**26.8**	**26.7**	**27.8**	**26.2**	**26.1**
Current expenditure	20.6	22.6	22.8	22.7	23.9	22.4	22.3
Excluding interest	*14.6*	*16.5*	*16.4*	*16.1*	*17.9*	*16.8*	*16.7*
Wages and salaries	6.0	7.5	7.6	7.5	7.3	6.7	6.5
Interest	6.0	6.0	6.4	6.6	6.0	5.6	5.6
Capital expenditure	5.5	4.0	4.0	3.8	3.8	3.7	3.6
Primary balance	**5.0**	**0.2**	**0.3**	**0.6**	**-2.8**	**-2.1**	**-1.9**
Overall balance	**-1.0**	**-5.9**	**-6.1**	**-6.0**	**-8.8**	**-7.7**	**-7.5**

a. Only major items are reported.
Source: Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

Public spending rose to 27.8 per cent of GDP in 2004/05 (from 26.7 per cent in 2003/04). The share of civil service wages and pensions, debt interest and subsidies has been growing in recent years; these three items accounted for 54 per cent of public spending in 2004/05, as against 48 per cent in 1999/2000. Capital expenditure, in contrast, fell to 12.7 per cent (from 18.9 per cent in 1999/2000).

Subsidies more than doubled between 1999/2000 and 2004/05, but the government intends gradually to replace them (except for those on the *baladi* bread staple) by social transfers in cash and to reduce them by better targeting with the help of a smart card for the poorest families. Government spending should fall to about 26 per cent of GDP in 2005/06 and in 2006/07.

Budget revenue fell to 19 per cent of GDP in 2004/05 (from 20.8 per cent in 2003/04) owing to the reduction of customs duties in September 2004, the introduction of a new tax code in June 2005 and the halving of personal and company income tax. The government hopes that streamlining procedures and strengthening the tax and customs authorities will raise more revenue to make up for these shortfalls. Total revenue is expected to be 18.5 per cent of GDP in both 2005/06 and 2006/07.

Monetary Policy

Since the adoption of a floating exchange rate in January 2003, monetary policy has been geared to controlling inflation, stabilising the economy and encouraging savings. The steadying of inflation in the first half of 2004/05 was an early result of this sensible policy, but other banking and financial challenges remain, such as boosting commercial banks' prudential ratios and introducing new financial instruments to increase savings and facilitate investment. Loans to the public sector grew 27 per cent in 2004/05, reflecting banks' reluctance to take risks when about a quarter of all their loans are non-performing.

The foreign exchange market was unified and liberalised with the December 2004 launch of an interbank foreign exchange market. The Egyptian pound then stabilised and its value even rose slightly against the US dollar, to just under 5.8 to the dollar in December 2005 (6.24 a year earlier). Exporters no longer have to deposit 75 per cent of their foreign currency earnings in the central bank, and this measure at once greatly increased currency reserves. Dollarisation of the economy fell below 25 per cent again in July 2005.

The appreciation of the Egyptian pound made it possible to check inflation, which had reached double figures for a few months in 2004. It fell to 4.6 per cent in December 2005 (18.2 per cent in October 2004). Inflation should average 8.8 per cent in the 2004/05 financial year, 7.5 per cent in 2005/06 and 5.3 per cent in 2006/07.

External Position

In the past few years, the Egyptian government has embarked on trade liberalisation at the unilateral, bilateral and regional levels. Tariff reforms in September 2004 cut the average weighted rate from 14.6 to 9.1 per cent, reduced the number of tariffs from 27 to 6 and abolished fees and surcharges. Egypt belongs to the Common Market for Eastern and Southern Africa (COMESA) and the Greater Arab Free Trade Area (GAFTA). It has also signed the Agadir Accord with Tunisia, Morocco and Jordan which liberalised trade among the four countries on 1 January 2005. An association agreement with the EU came into force on 1 January 2004. Egypt also has special relations with the United States under the Trade and Investment Framework Agreement (TIFA) and recently began negotiating with other bilateral partners such as Turkey and Russia.

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Trade balance	-13.5	-8.6	-8.1	-10.0	-11.4	-12.8	-13.9
Exports of goods (f.o.b.)	7.0	8.1	10.1	13.4	15.2	12.7	11.6
Imports of goods (f.o.b.)	-20.5	-16.7	-18.2	-23.5	-26.6	-25.4	-25.5
Services	6.9	4.3	6.2	9.7			
Factor income	1.3	0.1	-0.1	-0.3			
Current transfers	5.5	4.9	4.4	5.0			
Current account balance	**0.2**	**0.7**	**2.4**	**4.4**			

Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

Fearing a crisis in the textile industry after the Multifibre Arrangement quota system ended in January 2005, the government signed other agreements, involving the country's recently-established qualified industrial zones (QIZs). A December 2004 agreement with Israel allows QIZ products to be exported duty-free and without quotas to the United States. At the end of 2005, nearly 400 firms were licensed for the QIZs and 250 were already in operation, especially in the textile sector.

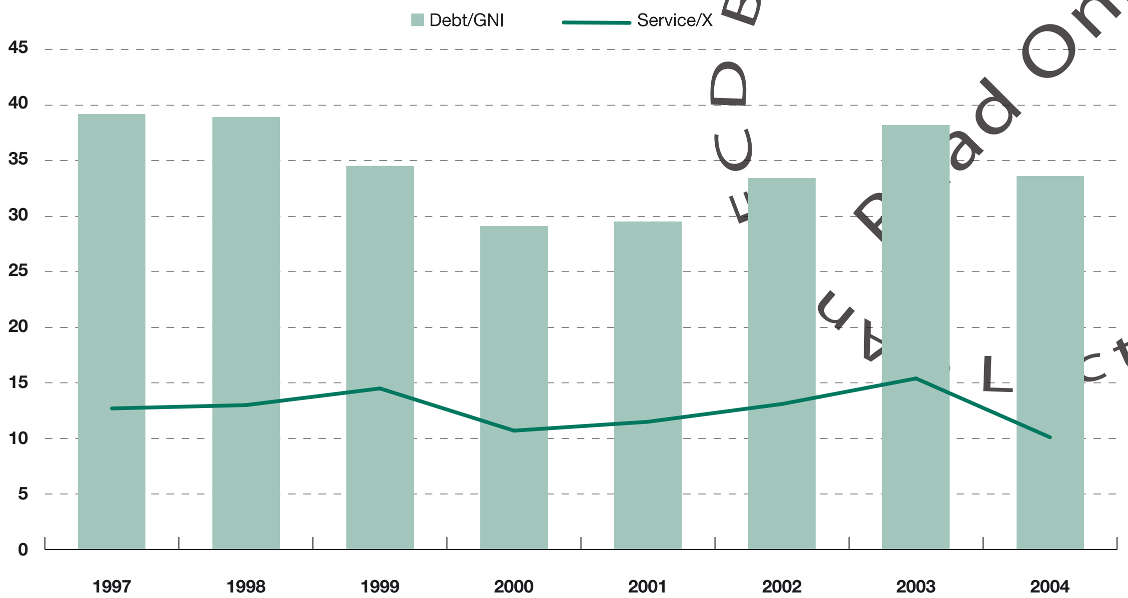
Egypt's chief exports of goods are oil, gas, oil products, cotton, textiles and chemical and metal products; its main imports are industrial machinery, transport equipment and consumer goods. The trade deficit has worsened since 2002/03 as imports have risen sharply (32 per cent by value in 2004/05). The deficit increased to 11.4 per cent of GDP in 2004/05 (10 per cent in 2003/04) and is expected to grow further in 2005/06 (to 12.8 per cent) and 2006/07 (to 13.9 per cent). However, thanks to trade in services, particularly transport (the Suez Canal) and tourism, the current account remained positive at 3.2 per cent of GDP in 2004/05 (down from 4.4 per cent in 2003/04).

Oil and gas export earnings were boosted by soaring world prices. Oil is the country's second biggest source of foreign exchange, bringing in $5.3 billion in 2004/05. Production has been falling steadily for a decade, however, and Egypt will have to import oil by about 2015. On the other hand, the country became an exporter of liquefied natural gas (LNG) in July 2003 with the first deliveries to Jordan through a pipeline that was extended to Lebanon and Syria in 2005, will reach Cyprus and Turkey in 2006 and later Bulgaria, Hungary, Romania and Austria. Spain has signed a contract to buy 4.4 billion cubic metres of LNG a year for the next 25 years. Another contract, with Gaz de France, was to take effect in 2005, and Egypt aims to penetrate the US market by 2010. Israel is also buying from 1.7 to 3 billion cubic metres a year for 15 years under a June 2005 agreement that will deliver gas through a 100-kilometre undersea pipeline. In July 2005, Cyprus and Egypt signed an agreement on extracting oil and gas in the Mediterranean, with an exchange of experts and drilling techniques and purchase of Egyptian gas by Cyprus as soon as its power stations are fitted with gas turbines.

All the country's traditional resources performed very well in 2004. Tourism soared to 8.6 million visitors in 2005 (4.6 million in 2001). The Suez Canal, the third biggest foreign exchange earner, took in a record of more than $3.3 billion in tolls in 2004/05 (up from $2.8 billion in 2003/04), and canal traffic is expected to double by 2030, particularly as a result of increased trade in oil and gas. Remittances by Egyptians working abroad were up 44.3 per cent year-on-year in 2004/05, at $4.3 billion.

Egypt, like the rest of Africa, is still only marginally attractive to foreign investors, but liberalisation, market opening and government incentives are starting to show results. The capital account was in surplus in 2004/05 for the first time (by nearly $3.4 billion, after a $5 billion deficit in 2003/04) due to a huge rise in foreign direct investment (FDI) and portfolio investment. The annual flow of FDI (only a tiny $237 million in 2003) rose to $1.25 billion in 2004 (9.9 per cent of gross fixed capital formation). Annual fluctuations in the past were mainly due to completion of privatisation operations or investments in oil exploration and production. The energy sector will require enormous investment of some $85 billion by 2030, with foreign companies having to provide most of it. Two agreements were signed in August 2005, worth $47 million, to explore 4 297 square kilometres in the Western Desert and about 26 square kilometres in the Al Amal offshore block in the Gulf of Suez. The major events in the industrial sector in 2005 were the Italcementi Group's purchase of the country's biggest cement firm, Suez Cement, which has about 22 per cent of the market, and the ASEC Cement Company, the country's fifth largest with annual production capacity of some 4 million tonnes of clinker. Several Arab investors announced big tourism and real estate projects. Pakistani, Chinese and Indian firms seem interested in investing in Egypt, and the Indian Farmers Fertiliser Cooperative and Egypt's El Nasar Mining Company have announced they will put $350 million into a fertiliser plant.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

The external debt was nearly $29 billion (30 per cent of GDP) in 2005, down from $31.1 billion in December 2004, and debt service amounted to 9.4 per cent of exports of goods and services. The bulk of the debt (93.6 per cent) took the form of medium- and long-term bilateral and multilateral loans.

Structural Issues

Recent Developments

Structural reforms have been quite successful, and in the next few years the reform programme will aim to stimulate domestic and foreign investment. Laws on competition, taxes, customs duties and tourism were passed by parliament in its 2004/05 session, and other measures are being considered to modernise bankruptcy and mortgage laws. Substantial tax reductions came into effect at the start of the 2005/06 financial year, with company tax cut by half, from 40 to 20 per cent of profits, except for industrial export firms (to 32 per cent) and oil firms (up from 40 to 55 per cent). Tax exemptions were abolished.

Egypt is the main beneficiary of the EU's MEDA programme, the financial arm of the Euromed partnership, and received more than €1 billion over the 1995-2004 period to make its industrial products more competitive as the country opens up to the European market. The EU has pledged €243 million for 2005/06.

The government has launched major efforts to cut spending with a programme to gradually abolish subsidies and price controls and another to continue privatisation, which was begun in 1994 but has made little progress in recent years. The state still has shares in 695 firms, 176 of which are large companies employing 401 000 people in various sectors, with an annual wage bill of 4.5 billion Egyptian pounds ($730 million). The four state-owned banks (the National Bank, Misr Bank, the Bank of Cairo and the Bank of Alexandria) accounted for about 57 per cent of all bank deposits in 2004/05, made 50 per cent of all loans and owned two-thirds of all bank branches nationwide.

The new government has created an investment ministry and broadened the privatisation programme to include once "untouchable" strategic sectors. Income from privatisation was a record 5.64 billion Egyptian pounds in 2004/05.

Exclusive state ownership of Telecom Egypt ended on 29 November 2005 with a public offering of 20 per cent of the operator's capital. Its privatisation was proposed in 1999/2000 but postponed because of an uncertain world telecom market. Telecom Egypt is capitalised at 17 billion Egyptian pounds, and its customer base rose from 6.7 million in 2001 to 9.5 million in 2004. It has also bought a 25 per cent share in Vodafone Egypt, and is going halves with the Egyptian firm Orascom Telecom in setting up Algeria's new fixed-line phone network, launched on 22 February 2006. Half of the shares sold are reserved for institutional investors, 45 per cent for private individuals and 5 per cent for the firm's employees. Trading in the shares began on 7 December 2005 on the Cairo, Alexandria and London stock exchanges. The sector is opening up further, with a third mobile-phone operator due to start up in 2007 using the third-generation (3G) standard. Privatisation will continue with sale of some of the state-owned shares in two oil sector firms, petrochemical company Sidi Krir (25 per cent of its holding) and the semi-public firm AMOC (Alexandria Mineral Oils Company) (at least 20 per cent of its holding).

The government also wants to withdraw gradually from the financial sector. Regarding the large state-owned banks, Misr Bank and Bank of Cairo are set to merge, probably under the name of Misr. The Bank of Alexandria will be first on the block, in early 2006. Government shares in all semi-public banks will be sold, and one of the four main insurance companies will be privatised.

Privatisation is seen as key for the private sector's long-term growth, but it will not suffice by itself. The business climate greatly improved in 2004, but Egypt is still rated low on the list of emerging economies. Aware of the need to improve governance and fight embezzlement, in June 2005 the government put five heads of state-owned firms on trial for misappropriating nearly $145 million.

A wholesale reorganisation of the four state-owned banks and of commercial banks is to be carried out by 2010. The new banking law passed in June 2003 raised the minimum capital requirement to 500 million Egyptian pounds for local banks and $50 million for subsidiaries of foreign ones to prevent excessive banking activity in the country and encourage banks to merge. The European Central Bank and four European central banks belonging to the Eurosystem are expected to help Egypt's central bank supervise the banking sector under a €2.5 million scheme funded by the European Commission as part of the MEDA programme.

The country's stock exchanges have performed spectacularly since January 2004. The CASE-30 index (based on the 30 most active stocks) soared more than 400 per cent in 2004, and the total value of all firms quoted rose from 42.4 per cent of GDP in 2003 to 52.6 per cent in 2004 and more than 62 per cent in 2005. Of the 761 companies listed, however, market liquidity depended on just 30 firms that accounted for more than 80 per cent of shares traded.

Transport Infrastructure

Egypt's transport infrastructure is quite good compared with the rest of Africa. The road network totals 92 370 km, 81 per cent of them paved. The port of Alexandria and Cairo airport both come third in their respective continental rankings, while the Nile is Africa's most heavily used river. The 163-km Suez Canal, opened in 1869 and nationalised in 1956, links the Mediterranean and the Red Sea, between Port-Said and Suez, and enables ships to reach Europe and Asia without having to go round Africa via the Cape of Good Hope. The canal was used by 17 224 ships in 2004 carrying 646 million tonnes of cargo. The total freight capacity of the country's Mediterranean and Red Sea ports is about 34 million tonnes a year. The railway carried 418 million passengers and 123 million tonnes of goods over 8 038 km of track in 2003/04. The country has eight international airports (22.6 million passengers in 2004) and 11 domestic ones (1.4 million passengers in 2004). The transport sector contributed 50.8 billion Egyptian pounds (9.1 per cent) to GDP and accounted for 13.6 billion Egyptian pounds in investment in 2004/05 (12.4 per cent of total investment).

Transport infrastructure problems relate to the quality, maintenance and security of equipment. The lack of investment is especially serious in the railways. Rates for passenger and goods transport do not cover costs, and the network therefore runs a substantial deficit that prevents spending on maintenance, making rail less competitive than other forms of transport. Roads carried more than 90 per cent of total domestic traffic (in millions of tonnes per kilometre) in 2004/05 and railways less than 10 per cent. Lack of control over lorry traffic, especially overloading, damages the roads. About 6 000 people are killed and 30 000 injured each year in road accidents, the country's second biggest cause of deaths. Speeding, failure to observe traffic regulations, the poor condition of the roads and the country's antiquated stock of vehicles are the most common cause of accidents, which are reckoned to cost an annual $520 million (3 per cent of GDP).

The government and aid donors have begun a three-pronged effort to upgrade transport infrastructure. First, the domestic network will be gradually opened up to the private sector. After an initial failure to do this in the late 1990s, the programme for 2002-17 includes converting 3 590 km of existing roads into motorways and building 1 055 km of new motorways. The new motorway linking Cairo and Alexandria has just opened. Second, traffic in the capital is very congested, so a 90-km ring road is to be built, along with a third subway line linking Giza to the airport. Third, Egypt's competitive entry into the world economy requires better connections with the outside world. The sum of $200 million has been earmarked for late 2006 to deepen the Suez Canal to 23.38 metres (from the present 20.13) by 2012 so that fully-loaded 360 000 tonne supertankers can use it (the current limit is 200 000 tonnes). Container ships have become the canal's main users, followed by bulk carriers and tankers. Private investors have helped build a new airport at Marsa Alam, on the Red Sea, and new terminals at Cairo and Luxor airports. Management of Cairo's international airport was handed over on 20 December 2004 to Fraport, which runs Frankfurt airport, and management of five tourist-oriented airports in southern Egypt has been contracted out to the French firm Aéroports de Paris (ADP).

All these efforts are welcome, but their effects are limited by institutional complexity and weak funding of transport infrastructure. The roads are run jointly by the roads and bridges authority of the transport ministry, the governorates and the housing and development ministry. This arrangement is meant to balance local and national development interests, but it is inefficient, with contradictory funding and division of responsibilities. The lack of a law on public-private partnership continues to hinder government efforts to get the private sector to invest more in major public works.

Political and Social Context

The year 2005 began with hopes of speeding up the democratic transition process begun by President Hosni Mubarak, who has been in power since 1981. The country's first-ever direct-vote multiparty presidential election was held in September and won by Mubarak with an official 88.6 per cent of the vote. Voter turnout was only 23 per cent, however, and the election was not accompanied by other democratic steps such as limiting the number of presidential terms, abolishing the state of emergency and adopting a nationwide list system for parliamentary elections. The three-stage parliamentary vote, based on individual constituencies, was held between 9 November and 7 December for 444 seats in the 454-member People's Assembly (ten members are appointed by the president). Although the election was overwhelmingly won by the ruling party, independent candidates linked with the Muslim Brotherhood, whose party is barely tolerated but not recognised, captured 88 seats.

Egypt has a high rate of population growth owing to high fertility (3.1 children per mother) and an increase in life expectancy, which grew by six months in 2004/05 year-on-year. Women born in 2003/04 can expect to live to the age of 72.3 and men to 67.9. Job creation lags far behind this demographic pressure (the population has increased by 30 million in 20 years). From 1980 to 2004, an average of only 291 000 jobs were created annually for half a million new job-seekers. Official figures put the unemployment rate at nearly 10 per cent in 2004/05, but estimates based on a broader definition of temporary employment and under-employment were two to three times higher. Restructuring of government firms is expected to lead to layoffs and increased unemployment, at least in the short term. The country's only system of unemployment benefits is a facility limited to formal sector workers, lasting at most nine months and mired in red tape.

According to the World Bank, 43.9 per cent of Egyptians lived on less than $2 a day in 2004/05 and have not really benefited from the country's renewed growth, although this growth has produced a middle class. Based on the official poverty line of 1 450 Egyptian pounds a year, the poverty rate was 20 per cent in 2004/05 (15 per cent in 2000/01). The government is concerned about the increasing impoverishment of the population, and the 2005/06 national plan focuses on protecting the very poor. President Mubarak's election-time programme for 2005-11 provided for creating 4.5 million jobs through private sector incentives. The new labour code adopted in 2003 makes hiring and firing easier.

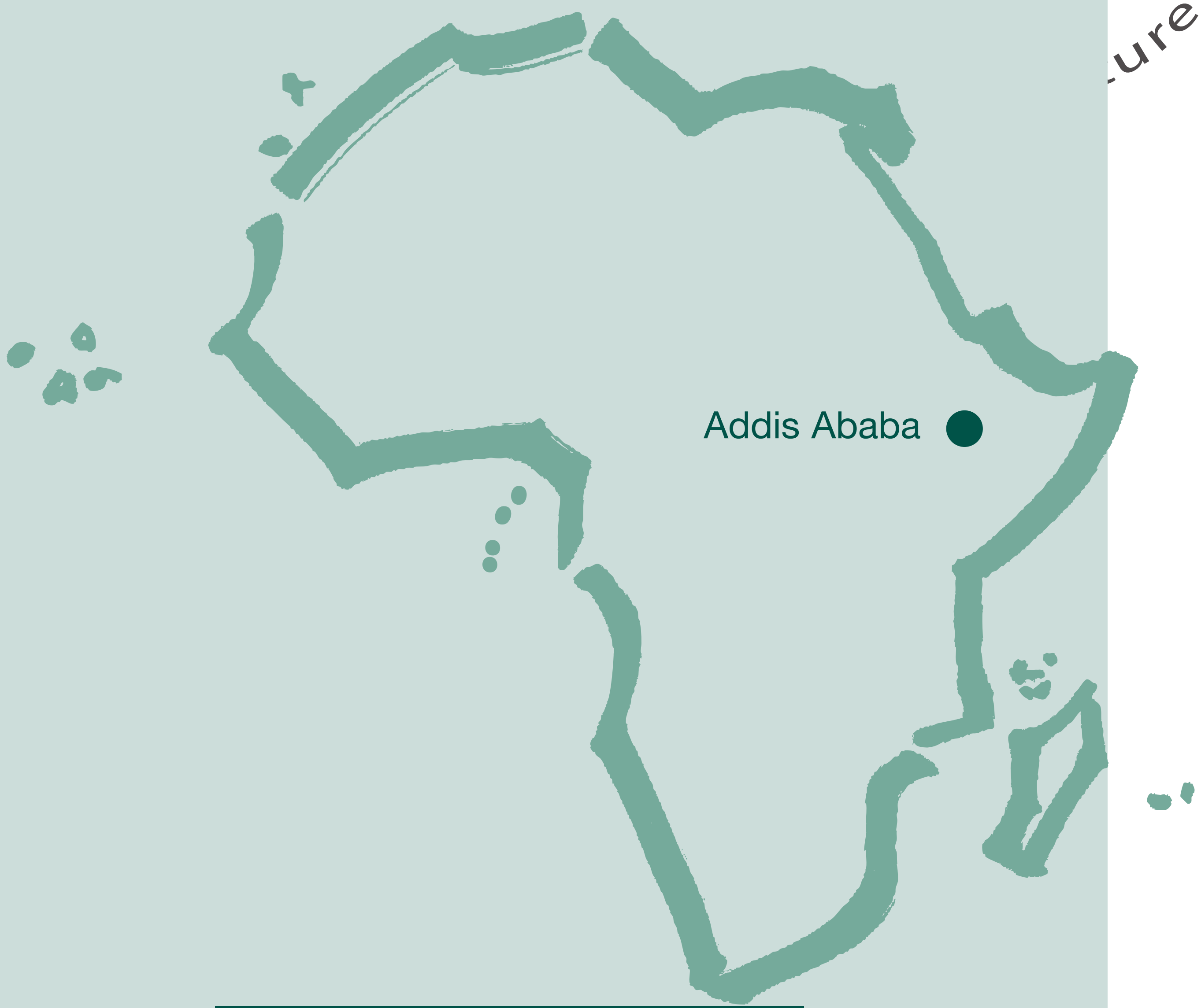
Progress has been made in reducing gender inequality in education, though the Millennium Development Goals (MDGs) cannot all be achieved in all parts of the country by the 2015 target date. Average gender disparities have been eliminated in secondary education, and the government expects to wipe them out in primary education by 2015. However, for every 100 literate men there are only 85 literate women. Regional disparities are very large and cannot significantly be reduced in time in the poorest regions, especially border areas and Upper Egypt. Women still play very little part in economic and political activity. Only 13 per cent of company heads were women in 2005, and only 2.6 per cent of members of parliament. There is some chance that the other MDGs will be met; those concerning access to drinking water and sewage facilities have already been achieved.

The country's health needs are swelling, with the population expected to hit 112 million in 2025 even without taking account of rising life expectancy. Government health spending in 2004/05 was 3.8 per cent of GDP, or $56 per capita, and the state has invested $624 million in the past five years to upgrade hospitals (including $150 million to buy respiratory aid equipment). Tax on modern equipment (for radiology and cancer) was cut 5 per cent to help private clinics expand and specialise. Demand for medical equipment grew 12 per cent in 2004/05 to $671 million, $638 million of it imported.

HIV/AIDS affects only 0.03 per cent of the adult population, and eight men to every woman, but the disease is starting to spread, especially among young people working in tourism. The health ministry recorded 1 039 HIV carriers and 453 persons living with AIDS between 1986 and 2004.

The illiteracy rate stood at 40.8 per cent of the population in 2004/05, but it has been falling steadily for several years. The 2005/06 national plan earmarks 4.4 million Egyptian pounds for investment in education, 77 per cent of it by the government. The aim is to boost child enrolment and improve educational quality amid overcrowded classrooms (an average of 39.1 children per class in 2004/05). Koranic schools attract more than 8 per cent of children. The country has 13 state-funded universities, 5 private ones, the Al Azhar Islamic university and 125 technology institutes.

Ethiopia

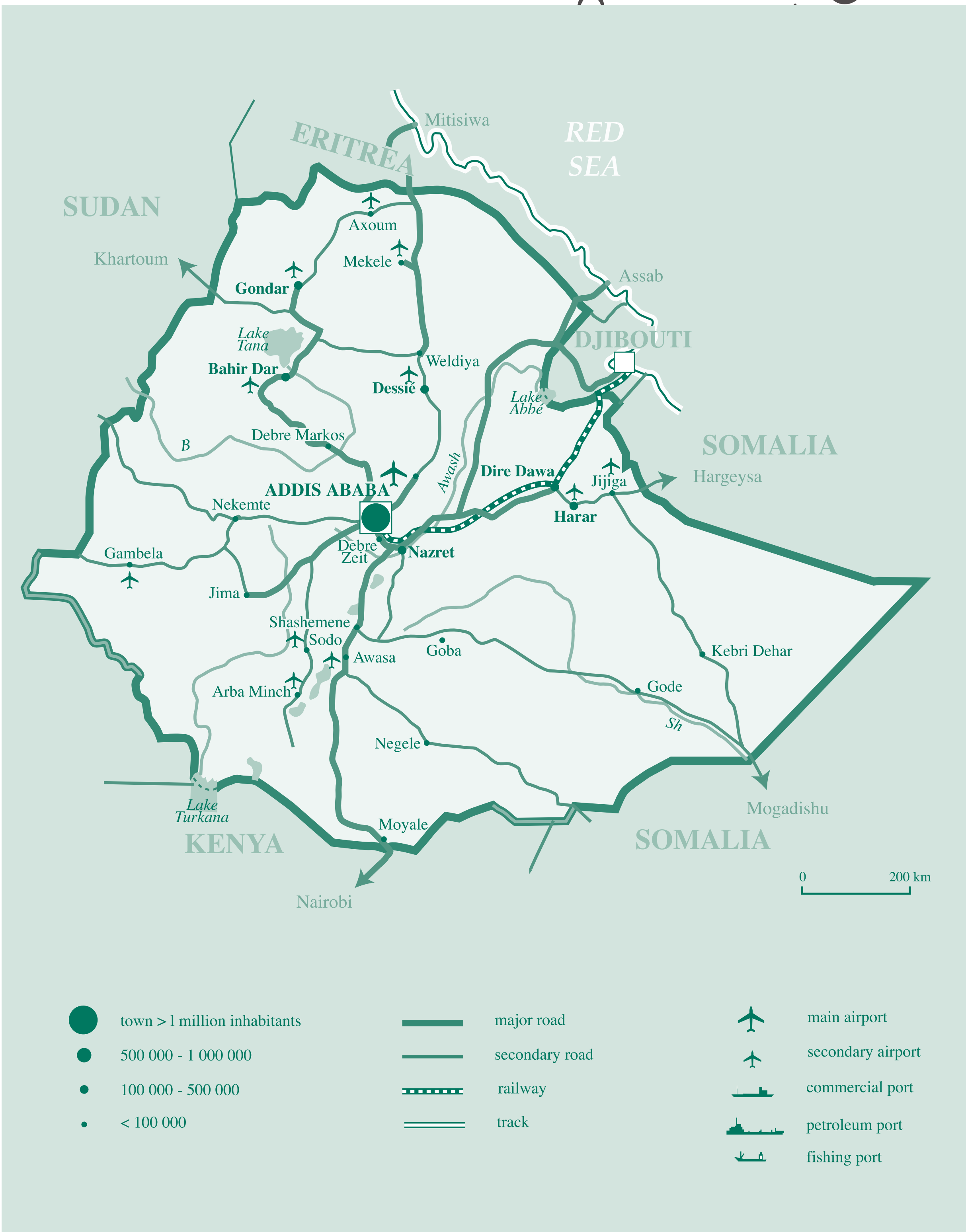


key figures

• Land area, thousands of km²	1 104
• Population, thousands (2005)	77 431
• GDP per capita, $ PPP valuation (2004/05)	1 021
• Life expectancy (2000-2005)	47.6
• Illiteracy rate (2005)	54.8

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/312550270181

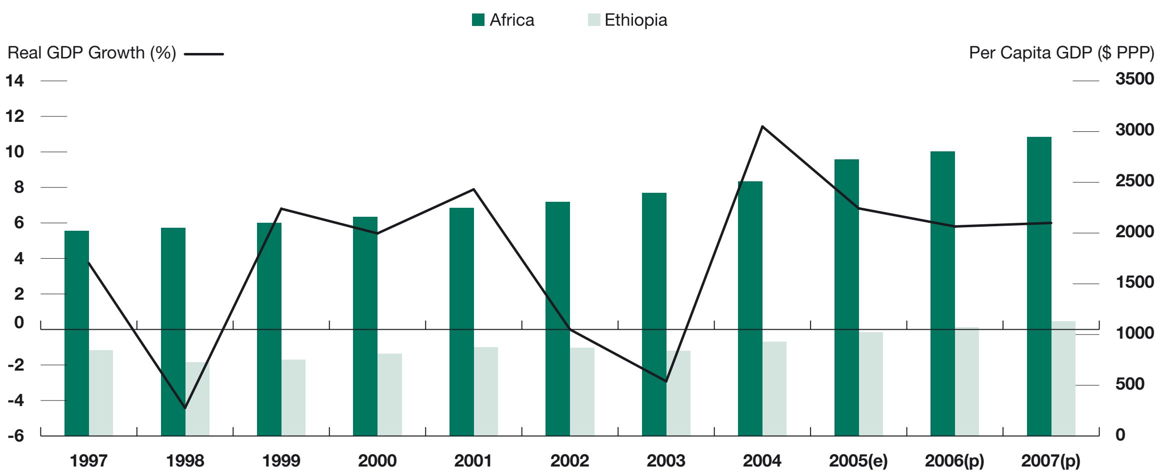
Ethiopia



DESPITE FIVE YEARS OF RAPID economic growth based on sound economic policies and high levels of aid, Ethiopia remains one of the world's poorest countries, and the lingering effects of the severe drought in 2002/03 continue to be felt by many of Ethiopia's 73 million people, especially the poor. The economy is estimated to have grown at a rate of 6.8 per cent in real terms in 2004/05 and is approaching the 7 per cent growth rate needed to reach the Millennium Development Goals (MDGs). Ethiopia's successful economic policies had made it a favourite of donors. Many donors have recently suspended part of their budgetary support, however, in response to the suppression of political opposition following the May 2005 parliamentary election, viewed as rigged by supporters of the opposition.

Recent political developments have cast a shadow on Ethiopia's otherwise good economic outlook.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: Domestic authorities' and FMI data; estimates (e) and projections (p) based on authors' calculations.

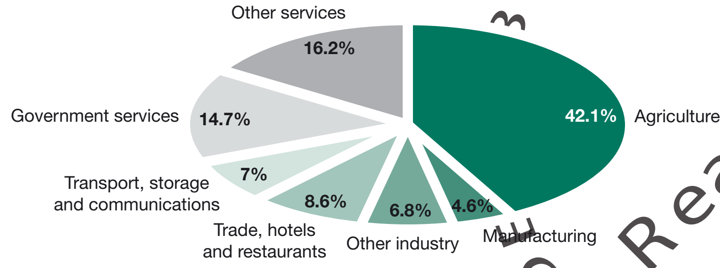
Ethiopia also faces rising tensions with Eritrea, and the risk of war is increasing. Ethiopia's economic outlook obviously hinges on a peaceful resolution of these internal and external conflicts.

Recent Economic Developments

Following unprecedented real GDP growth of 11.4 per cent in 2003/04, largely attributable to the strong recovery in agricultural production after the drought of 2002/03, Ethiopia recorded a more sustainable, though still high, growth rate of 6.8 per cent in 2004/05. This robust growth reinforced economic reform and poverty reduction efforts aimed at achieving the MDGs by 2015. The real GDP growth rate for 2005/06 is projected at 5.8 per cent, reflecting weather conditions and political uncertainties at the end of 2005. On the assumptions of favourable weather conditions and a return to political stability, Ethiopia appears to have put in place the economic policies that could enable it to achieve its objective of 7 per cent real GDP growth over the medium term.

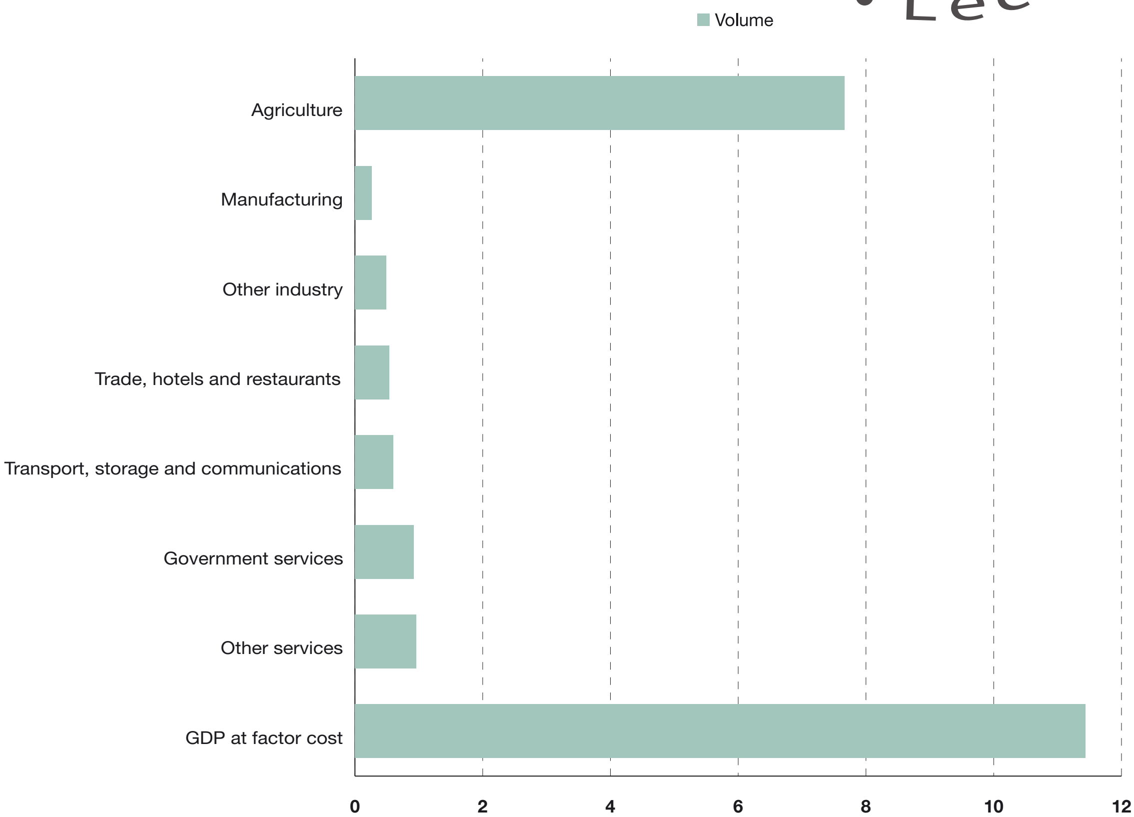
Agricultural output is estimated to have grown by 6.6 per cent in real terms in 2004/05, with the share

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Author's estimates based on domestic authorities' data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Author's estimates based on domestic authorities' data.

of agriculture in GDP remaining at about 42 per cent. Subject to favourable weather conditions, agricultural production is forecast to grow at an average of about 7.4 per cent in 2005/06 and 2006/07. Owing to shallow agricultural markets (partly related to the lack of roads) and Ethiopia's chronic food shortages, however, some 5 million people will continue to depend on food aid even with favourable weather conditions. At the end of December 2005, after the rains failed, it became clear that more than 1 million cattle herders in Ethiopia's eastern Somali region were facing extreme food shortages. The National Food Security Programme launched in June 2003 provides assistance to farmers in the form of seeds and extension services, small-scale irrigation and water harvesting schemes, and voluntary resettlement out of drought-prone areas. This reinforces a safety net programme already in place, which includes employment in public works and the free distribution of food to orphans, the elderly, the disabled and others who cannot work.

The government has also sought to address the insecurity of property rights and pressures on land due to population growth. The number of farming households covered by extension services rose from 4 million in 2003/04 to over 6 million in 2004/05. In addition, the Participatory Demonstration and Extension Training System (PADETS) and technical and vocational education and training (TVET) programmes were expanded. During the 2002-04 period, TVET and other programmes made it possible to train some 24 000 skilled development agents and to establish over 5 000 training centres for farmers. The government has also issued over 4 million land certificates to increase farmers' security of tenure, and has started to extend its special programmes into the pastoral areas of various regions.

In 2004/05, both industrial output and services grew by about 7 per cent in real terms, giving industry a GDP share of 11 per cent and services a 47 per cent share. Within the industrial sector, construction was the fastest-growing sub-sector, with an estimated growth rate in real terms of 9 per cent in 2004/5, mainly as a result of increased demand for private sector construction from households and businesses. It is projected that this growth rate will be slightly lower in 2005/06. Mining and quarrying activities are expected to continue to be the second major source of growth in the industrial sector, expanding at an estimated 7.8 per cent in 2004/05 and a projected 8.4 per cent in 2005/06.

As in the previous year, growth in the services sector was led by the education and health sub-sectors, which expanded by 12 per cent and 8.5 per cent respectively. The estimated growth rate of the transportation and communications sub-sector in 2004/05 was a strong 7.4 per cent, down slightly from the previous year's 8.9 per cent.

These sectoral developments reflected solid growth of private consumption in 2004/05, with the GDP share of private consumption increasing from 80.7 per cent in 2003/04 to 80.9 per cent in 2004/05. Overall consumption decreased slightly as a percentage of GDP

Table 1 - **Demand Composition**[a] (percentage of GDP)

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Gross capital formation	**19.1**	**23.5**	**22.7**	**21.3**	**23.3**	**24.7**	**24.6**
Public	6.4	7.4	8.4	7.7	8.0	8.6	8.5
Private	12.7	16.1	14.4	13.6	15.2	16.1	16.1
Consumption	**87.8**	**91.9**	**92.5**	**95.1**	**95.0**	**94.3**	**93.6**
Public	8.2	16.5	19.3	14.3	14.0	13.7	13.1
Private	79.6	75.4	73.2	80.7	80.9	80.6	80.5
External sector	**-6.9**	**-15.4**	**-15.2**	**-16.3**	**-18.2**	**-19.0**	**-18.2**
Exports	12.0	12.8	14.3	13.9	13.4	13.4	13.7
Imports	-18.8	-28.2	-29.5	-30.2	-31.6	-32.4	-31.9

a. Fiscal year begins 1 July.
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

from 95.1 per cent in 2003/04 to an estimated 95 per cent in 2004/05, reflecting the slower growth rate of public consumption. The share of gross capital formation in GDP increased significantly from 21.3 per cent in 2003/04 to an estimated 23.3 per cent in 2004/05, reflecting increasing GDP shares of both private and public investment. Preliminary estimates also indicate that gross domestic savings increased from 2.3 per cent of GDP in 2003/04 to 3.4 per cent in 2004/05.

Macroeconomic Policies

Fiscal Policy

Estimates as of December 2005 indicate that recurrent and capital expenditures for 2004/05 were broadly in line with budgetary allocations. The share of total expenditure in GDP was estimated to have decreased slightly from 25.8 per cent in 2003/04 to

25 per cent in 2004/05, due to a substantial fall in the GDP share of recurrent expenditures from 15 per cent in 2003/04 to an estimated 13.9 per cent in 2004/05. Capital expenditure, however, increased from 10 per cent of GDP to an estimated 10.4 per cent during the same period. The share of total public spending allocated to poverty-oriented sectors increased from 50.3 per cent in 2003/04 to 56.8 per cent in 2004/05. These favourable trends could be reversed by higher defence expenditures, especially if the border conflict between Eritrea and Ethiopia remains unresolved and the internal political unrest continues. In 2004/05, however, the growth rate of defence spending actually slowed to 5 per cent from 6.5 per cent in 2003/04.

The share of tax revenue in GDP increased slightly to 12.5 per cent in 2004/05 from 12.3 per cent in 2003/04. It is expected that tax revenue will increase further in 2005/06, primarily as a result of increased efficiency in the tax collection system and increased receipts from import taxes, reflecting the growing share of imports in GDP. Revenue from income, profit and indirect taxes is also expected to increase significantly in 2005/06 and moderately in the medium term.

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Total revenue and grants[b]	**16.7**	**20.4**	**23.0**	**22.0**	**20.2**	**20.5**	**19.8**
Tax revenue	9.5	12.6	12.1	12.3	12.5	12.7	12.6
Grants	2.7	3.9	6.7	6.5	4.6	4.7	4.0
Total expenditure and net lending[b]	**17.8**	**28.1**	**30.1**	**25.8**	**25.0**	**25.2**	**24.2**
Current expenditure	10.2	16.8	19.8	15.0	13.9	13.4	12.7
Excluding interest	*8.6*	*15.2*	*18.1*	*13.3*	*12.9*	*12.6*	*12.1*
Wages and salaries	3.8	6.0	5.9	5.0	4.7	4.5	4.3
Interest	1.6	1.6	1.8	1.8	1.0	0.8	0.6
Capital expenditure	7.6	9.7	9.3	10.0	10.4	11.1	11.0
Primary balance	**0.5**	**-6.1**	**-5.2**	**-2.1**	**-3.8**	**-3.9**	**-3.9**
Overall balance	**-1.2**	**-7.7**	**-7.0**	**-3.8**	**-4.8**	**-4.6**	**-4.5**

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Excluding grants, the overall fiscal deficit expressed as a share of GDP decreased from 10.3 per cent in 2003/04 to about 9.4 per cent in 2004/05. When grants are included, however, the deficit increased to 4.8 per cent in 2004/05, although this is still below previous levels. Ethiopia currently receives about $1.9 billion of aid per year, including about $700 million in emergency assistance. Aid accounts for up to one-third of government revenue. Official estimates for 2005/06 and beyond project expenditure to increase at higher rates than revenue, but the overall deficit including grants is projected to narrow owing to an increase in grants. This optimistic scenario depends, however, on the current review of aid programmes by major donors, a positive outcome of which is contingent on the resolution of the political conflicts noted above.

Monetary Policy

Ethiopia's monetary policy continues to focus on ensuring price and exchange-rate stability while maintaining a macroeconomic environment conducive to economic growth. The drought of 2002/03 led to a spike in the inflation rate to 15.1 per cent. Inflation declined to 8.6 per cent in 2003/04 and 6.8 per cent in 2004/05, as favourable weather conditions reduced pressure on food prices. In keeping with the objective of moderating inflation, the broad money supply was allowed to grow at 19.6 per cent in 2004/05, leading to growth in liquidity of 14.7 per cent. Over the medium term, the inflation rate is expected to stabilise at about 5 per cent, assuming continued prudent fiscal and monetary policies and normal weather conditions.

The National Bank of Ethiopia (NBE), Ethiopia's central bank, maintained its minimum interest rate on savings deposits at 3 per cent and its minimum lending rate at 7 per cent. Public and private commercial banks have much higher differentials between savings and lending rates, suggesting a lack of competition in the financial market.

The restructuring of the Commercial Bank of Ethiopia has improved service delivery and reduced the share of non-performing loans from about 35 per cent in June 2004 to 27.2 per cent by the end of June 2005. The NBE plans to increase credit to both the government and the private sector in 2005/06. Although balance-sheet problems persist in the financial sector, the role of private banks has been increasing in the last three years. The share of private banks in the deposits, new loans and outstanding credit of the total banking system reached 25, 48 and 32 per cent respectively at the end of 2004/05. About 86 per cent of the new loans were extended to the private sector. Increased financing of agricultural co-operatives has been a particularly encouraging trend. The successful repayment by three co-operatives of loans provided through a pilot programme for importing fertilisers in bulk enabled the government to extend the programme to include nine co-operatives in 2005/06. More private banks are showing interest in becoming involved in such ventures.

External Position

Ethiopia's current account deficit (excluding imports of aircraft) doubled during 2004/05, largely as a result of higher import prices, in particular for oil and steel. The share of the trade deficit in GDP is estimated to have increased from 20.4 per cent in 2003/04 to 21.8 per cent in 2004/05, mainly due to import price increases. Although the value of exports – principally coffee, pulses and oilseeds – increased significantly, the share of merchandise exports in GDP is estimated to have remained stable at 6.2 per cent.

Inflows of foreign direct investment (FDI) inflows decreased marginally in 2004 to 32.7 per cent of gross fixed capital formation, following the sharp increase from 20.5 per cent in 2002 to 34.2 per cent in 2003. As a result of these relatively large inflows, the stock of FDI increased from 15.5 per cent of GDP in 2000 to 31 per cent in 2004, which is above the 27.8 per cent average for Africa as a whole.

Table 3 - **Current Account**[a] (percentage of GDP)

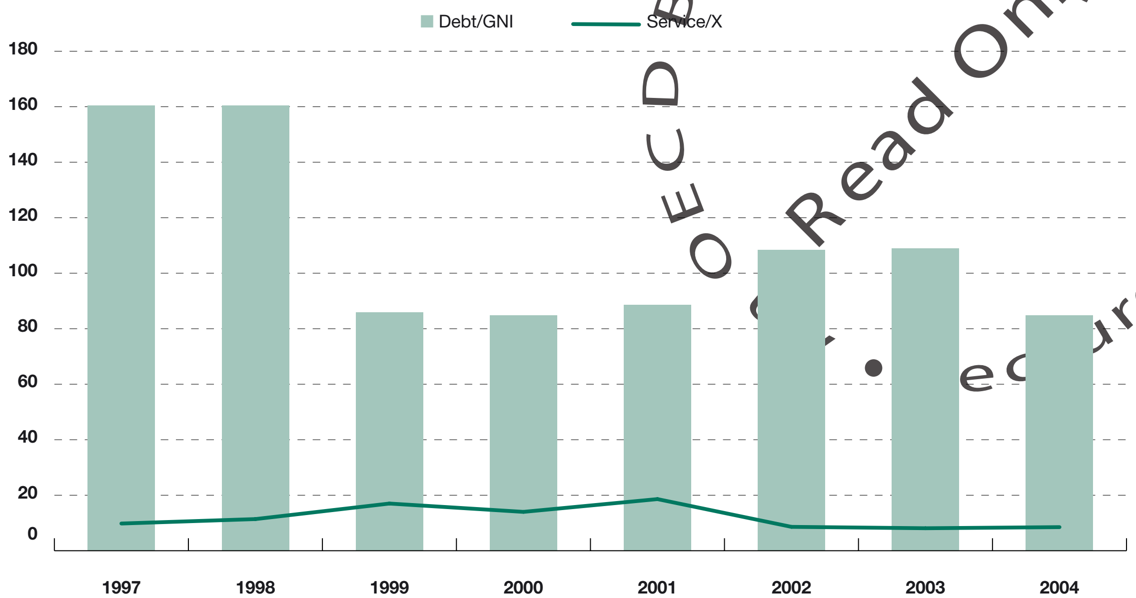
	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Trade balance	-8.2	-16.8	-17.3	-20.4	-21.8	-22.5	-22.0
Exports of goods (f.o.b.)	6.9	6.1	6.1	6.2	6.2	6.2	6.3
Imports of goods (f.o.b.)	-15.1	-22.9	-23.4	-26.6	-28.0	-28.7	-28.3
Services	1.2	2.1	2.1	3.2			
Factor income	-0.4	-0.7	-0.3	-0.7			
Current transfers	5.6	10.6	13.8	12.7			
Current account balance	**-1.8**	**-4.8**	**-1.7**	**-5.1**			

a. Fiscal year begins 1 July.
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

In 2004/05, Ethiopia obtained debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, amounting to $84.3 million, or 1.1 per cent of its GDP. Following the Group of Eight (G8) agreement on multilateral debt relief in 2005, Ethiopia's external debt is expected to decline further. Its high aid dependency remains a concern, and the severe shift in the country's overall balance of payments from a surplus of $226.5 million in 2003/04 to an estimated deficit of $101.7 million in 2004/05, due mainly to the sharp increase in oil prices, poses a significant financing challenge.

Ethiopia's official exchange rate continues to be determined through daily wholesale inter-bank foreign exchange auctions. The birr depreciated slightly by 3.6 per cent in 2004/05. The average difference between the official and parallel market rates has remained stable

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

at about 1 per cent. Strict foreign exchange controls limit exchange-rate movements. The NBE's holdings of international reserves rose by $17 million, remaining equivalent to almost four months of imports of goods and services.

Structural Issues

Recent Developments

Ethiopia has been implementing various legal and regulatory reforms in nearly all sectors, including a reduction in the time required to clear customs, and a reduction in the time required to obtain a business licence, which have been accompanied by an increase in domestic and foreign private investment (including by overseas Ethiopians). The World Bank report *Doing Business in 2006* ranks Ethiopia 101st out of a total of 155 countries and 10th among the 36 sub-Saharan African countries covered. All nine higher-ranked sub-Saharan African countries have significantly higher GDP per capita levels than Ethiopia. Of the ten areas covered in the report, Ethiopia ranks lowest in those related to property registration, investor protection and international trade.

With funding support from donors, the government supports the development of small and medium-sized enterprises through capacity building, industrial zoning and development of micro-finance institutions (MFIs). The number of recipients of MFI loans increased from 461 326 in 2001 to about 1.2 million in 2004/05, and the value of outstanding loans rose from about $37 million to over $170 million over the same period.

The government has privatised a total of 221 units[1] since 1994, and 19 of these operations were completed in 2004/05. Two additional enterprises have been leased and another has been placed under a management contract. Nevertheless, as of June 2005, 146 enterprises remain in the public sector. The government has also established a comprehensive competition policy. The greater availability of affordable land for businesses

1. Some large enterprises were split up (at the request of buyers) to make them more affordable and hence easier to market; as a result, the number of enterprises sold may not tally with the number of units.

through competitive lease auctions has also contributed to private sector growth. Horticulture is one of Ethiopia's private sector successes. It has attracted $300 million in foreign investment and created employment in rural areas as well as generating additional export earnings, valued at $4 million in 2003/04.

There has also been progress in power generation, the provision of clean water and the expansion of telecommunications. The generation of hydro-electricity is increasing after a significant decline due to the lack of rainfall in 2002/03. Power output grew by 7.1 per cent in 2003/04 and 6.5 per cent in 2004/05. Currently, hydro-electricity accounts for about 98 per cent of total power production. Although Ethiopia is endowed with a large potential for electric power generation from hydropower, solar power and wind power, per capita energy consumption remains among the lowest in sub-Saharan Africa. Hence, Ethiopia needs to continue with its recent efforts to expand hydropower, especially on the Gilgel Give and Tekeze rivers.

The period from mid-2002 to mid-2005 saw a major expansion of urban and rural water supplies, including the construction and rehabilitation of water facilities in 83 towns with a combined population of 1.6 million and the construction of about 160 000 wells and rural water schemes serving about 5 million people. The number of people with access to clean water increased from about 20 million in mid-2002 to about 26.6 million by mid-2005. Telephone coverage has also expanded sharply, from about 400 000 lines in mid-2002 to over 1 million by mid-2005. During the same period, the Ethiopian Telecommunications Corporation (ETC) has sought to expand access to telecommunications services in rural areas, where about 300 towns and 3 000 villages have been connected in recent years. Prospects for 2005/06 and beyond are favourable for further expansion of telecommunications access through structural reform in the sector.

Transport Infrastructure

Ethiopia's road network expanded from 24 970 km in 1997 to 36 496 km in 2004, for an average annual growth rate of close to 6 per cent. Road density has increased from 24.1 km per 1 000 sq km in 1997 to 33.2 km per 1 000 sq km in 2004.

The railway system consists of a 781-km single-track corridor from Addis Ababa to Djibouti, of which 709 km are in Ethiopia. Rail transport operations are carried out by the Chemin de Fer Djibouti-Ethiopien (CDE), which is jointly owned by the governments of the two countries under a 1981 treaty. The rail corridor, which dates from 1917, has lost competitiveness, especially since Ethiopia has begun to improve its road network. The railway's freight volume fell from a high of 336 000 tonnes in 1986 to a low of 207 000 tonnes in 2002, and the number of passengers fell from 1 million in 1986 to 501 000 in 2002.

Although a land-locked country, Ethiopia has a state-owned maritime transport company, Ethiopian Shipping Lines (ESL), which provides shipping services to various European ports, as well as to ports in Northern Africa, East Africa, the Middle East and the Far East. ESL owns 12 ships in all; 10 of these are operational, with a cargo capacity of 112 834 gross registered tonnes. The government of Ethiopia liberalised its freight forwarding and shipping services in 1997, and today there are about 36 companies involved, including the state-owned Maritime and Transit Services Enterprise (MTSE).

Ethiopia has a well-established, internationally recognised state-owned airline in Ethiopian Airlines, which serves 22 domestic destinations, 24 destinations in 23 other African countries and 17 destinations in 14 non-African countries in Asia, Europe and North America. Another 62 international destinations are served via partnership agreements with other airlines. In addition to various African hubs, Ethiopian Airlines has three non-African hubs (Rome, New Delhi and Bangkok) for onward international connections. Ethiopian Cargo, which started operating in 1962, provides an all-cargo service from Addis Ababa to nine international destinations: Brussels, Djibouti, Dubai, Entebbe, Jeddah, Johannesburg, Mumbai, Nairobi and Rome. In addition to Ethiopian Airlines, there are ten international airlines operating regional and international flights to and from Addis Ababa. The airport in Addis Ababa is regularly upgraded and serves as a major regional hub for a variety of airlines. It has a new runway, new taxiways, a modern terminal and upgraded communications and safety facilities. The international airport in Dire Dawa is also used by some international airlines. With a view to attracting more tourists, the government has recently upgraded domestic airports by building terminals and runways in five tourist destination towns.

Roads are the primary mode of transport in Ethiopia, carrying about 90 per cent of total traffic. About 65 per cent of the road network is in good to fair condition. In rural areas only 17 per cent of the population lives within two km of an all-weather road. The density and quality of the transport network in Ethiopia remain largely inadequate to support economic development, especially given the importance of agriculture.

Prior to Eritrea's independence in 1993, Ethiopia had two major ports, Assab and Mitsiwa, on the Red Sea coast, which accounted for about 93 per cent of its international trade. The port of Djibouti, which operated as a free port, handled the remaining 7 per cent. Since the 1998-2000 border war with Eritrea, the bulk of Ethiopia's imports and exports have been shipped through Djibouti and, to a lesser extent, Kenya and Sudan.

Ethiopia reorganised government oversight of the transport sector in 2005. The responsibilities of the former Ministry of Infrastructure Development have been split among seven ministries and authorities: *a)* the new Ministry for Transport and Communication; *b)* the previously existing Ministry of Urban Development and Works, which was charged with oversight of electric power and road construction; *c)* the Transport Authority, which now includes the previously independent Urban Transport Authority; *d)* the Railway Regulatory Authority; *e)* the Aviation Authority; *f)* the Airport Administration Authority; and *g)* the Maritime Regulatory Authority. These central ministries and authorities are responsible for planning, implementing and co-ordinating their respective statutory activities with their respective regional offices. In addition, regional road authorities are responsible for rural roads, while municipalities are responsible for urban roads.

With the ultimate aim of privatising road transport services (trucks, buses etc.), the government recently opened the market to private operators, who were granted tax exemptions, credits and other investment incentives to increase capacity. However, government agency vehicle fleets, public bus companies and a variety of other parastatal transport service providers still dominate the road transport sector. The railroad, airline and maritime shipping lines continue to be operated by government monopolies.

The Ethiopian government formulated a ten-year Road Sector Development Programme (RSDP) in 1997, which was implemented with substantial donor support. The first phase of the RSDP, covering 1997-2002, focused on the rehabilitation of essential highways and on major policy and institutional reforms. The second phase (2002-07) aims at expanding the road network, with a view in particular to connecting rural areas.

Other important components of the second phase of the RSDP include: *a)* establishing a commercially oriented road authority at national level; *b)* strengthening the capacity of rural road authorities and districts (*woredas*) in order to enhance decentralised service delivery for rural travel and transport; *c)* commercialising and decentralising district maintenance organisations; *d)* increasing the role of private construction companies in road contracts; and *e)* increasing funding for road construction and maintenance. The goal of greater participation by domestic construction firms is constrained by the limited capacity of such firms, especially when it comes to large-scale projects.

Government funding for investment in and maintenance of the transport network in general, and roads in particular, is inadequate. It has been estimated that actual maintenance expenditure meets only 53 per cent of requirements. The transport sector accounts for 11 per cent of public spending, and total expenditure on roads for only 9.5 per cent. Taxation provided about 31 per cent of total public spending on transport in 2004.

Investment in Ethiopia's transport infrastructure is funded mostly by donors, especially the African Development Fund (ADF), the Arab Bank for Economic Development in Africa (BADEA), the European Commission (EC), Germany, the International Development Association (IDA), Ireland, Italy, Japan, the Nordic Development Fund (NDF) and the United Kingdom. The maintenance costs of transport networks, in contrast, are largely covered by domestic resources (84 per cent), mostly raised at the local level, with a growing role for user charges. In 2003/04, user charges generated about 50 per cent of the total financing in this regard. Municipal governments, Addis Ababa in particular, have borne an increasing share of road maintenance costs. Where railroad and airport operations are concerned, in 2003/04 subsidies covered respectively 80 per cent and 53 per cent of the costs.

Political and Social Context

The peace agreement signed with Eritrea in December 2000 never fully resolved the tensions between the two countries. The April 2002 ruling of the independent Boundary Commission has yet to be implemented, and the border issue is now threatening to ignite another war. In November 2005, Eritrean President Isaias Afwerki restricted helicopter flights by United Nations (UN) monitors along the border, and in December 2005 he expelled 180 UN peacekeepers. There are clear signs of a new build-up of armed forces in freshly dug trenches along both sides of the 915-km border. As of end-December 2005, 130 000 soldiers on the Ethiopian side and 250 000 soldiers on the Eritrean side were massed at the border[2].

The events that followed the national parliamentary elections of May 2005 threaten to reverse the considerable progress made towards democratisation. The achievements to date include decentralisation of authority from the regional to the *woreda* (district) level and noteworthy strengthening of the judicial and court systems, mainly through training of judges and creation of new and improved courts. Elections have featured increasing civic participation and provided opposition parties and political commentators with ample opportunity to disseminate their political positions and views effectively through the public and privately controlled media. As a result, participation in the May 2005 elections exceeded 95 per cent of registered voters.

The aftermath of the election, however, has been disastrous. The victory of the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) has been rejected by the opposition as fraudulent. According to the official results, the opposition carried 175 of 547 seats in Parliament – a substantial increase over the previous figure of 14 seats – and gained control of the Addis Ababa city administration, but this was judged to be far below what they had actually won. In November 2005, supporters of the opposition party filled the streets of Addis Ababa to protest against these results. Dozens of people, including women and children, were killed when security forces fired into the crowds. In subsequent weeks, the police jailed at least 15 000 protesters and 130 senior opposition figures. Following this brutal crackdown, western development officials announced at the end of December 2005 that they would withhold $375 million (about 10 per cent of total government revenue) in direct budgetary support to the Ethiopian government.

These events are jeopardising the progress achieved in economic development and poverty reduction under Ethiopia's first Sustainable Development and Poverty Reduction Programme (SDPRP) from 2002/03 to 2004/05, and undermining prospects for the new Plan for Accelerated Sustainable Development to End Poverty (PASDEP). The PASDEP is intended to be a five-year programme, covering the 2006-10 period. It was carefully formulated, with two rounds of consultations with civil society and development partners, and took into account the results of: *a)* the recent household income, expenditure and consumption survey; *b)* a number of background papers and studies prepared by various government ministries and independent

2. See *The Seattle Times*, 28 December 2005.

Ethiopian experts; and *c)* several major recent studies, including the Millennium Development Goals Needs Assessment for Ethiopia.

Even if the recent political strife is resolved peacefully, Ethiopia will still have a long way to go in reducing poverty. Although some social indicators have improved, especially with regard to health and education, the latest available data seem to indicate that poverty has actually increased recently in Ethiopia, probably reflecting the aftermath of the severe drought in 2002/03. Ethiopia ranked 170th out of 177 countries in the UNDP's 2005 human development index (HDI), even though its HDI rating had improved significantly from 0.29 in 1985 to 0.37 in 2003. Ethiopia also scored poorly on the UNDP gender-related development index (GDI) for 2005, ranking 134th out of 140 countries. Women's earnings amount to only 52 per cent of men's. The government launched a National Action Plan for Gender in 2004/05, but more energetic efforts to redress gender inequalities will be needed.

Following the completion of the first Health Sector Development Programme (HSDP-I) in 2002 and the second (HSDP-II) in 2005, the recently formulated HSDP-III is aimed at achieving the health-related MDGs. The strategy adopted is to improve health delivery, especially in rural communities, with particular attention to malaria, tuberculosis and HIV/AIDS as well as infant and maternal care and reproductive health services. Per capita daily government expenditure on health increased from about $1.4 in 2001/02 to about $2.2 in 2004/05. Some important progress has been achieved as a result of these efforts. In 2004/05, overall health coverage was estimated at 64 per cent, a significant increase from the 45 per cent and 57 per cent coverage observed in 1997 and 2002 respectively. The per capita utilisation rate increased from 27 per cent in 2000 to 36 per cent in 2004/05. Immunisation of children has increased from 27 to 60 per cent, pre-natal coverage from 29 to 41 per cent and the use of contraceptives from 13 to 23 per cent among married women 15-49 years of age. Tuberculosis prevention and control coverage among married women rose from 20 per cent in 2001/02 to 76 per cent in 2004/05.

With a rate of adult HIV/AIDS prevalence at a national average of 4.4 per cent (as of 2003), the incidence of HIV/AIDS is relatively low in Ethiopia compared to other East African countries, but it is considerably higher in urban areas, where the prevalence rate among pregnant women has averaged an alarming 12-13 per cent since the mid-1990s. The adult prevalence rate rose from 1.9 per cent in 2000 to 2.6 per cent in 2003 in rural areas, where some 85 per cent of the population lives. With about 1.5 million people living with HIV, Ethiopia faces a considerable task if it is to provide adequate treatment, care and support to them and their families. As of mid-2005, fewer than 10 per cent of people in need of antiretroviral treatment had received it, despite the government's policy aimed at increasing availability. Ethiopia has improved its HIV/AIDS tracking, measurement and prevention programmes. It has also launched programmes to control mother-to-child transmission of HIV/AIDS, ensure blood safety and combat other sexually transmitted diseases.

Provision of adequate health services in relation to communicable diseases faces a number of obstacles: *a)* poor retention and deployment of inefficient medical staff; *b)* weak co-ordination and communication; *c)* a shortage of medical supplies; *d)* a greater share of the health budget spent for tertiary curative services; and *e)* a lack of a common implementation procedure among donors and the government.

The Education Sector Development Programme (ESDP) aims to achieve universal primary education by 2015 with a strategy based on decentralised management, cost-sharing mechanisms at the secondary and tertiary levels, and private-sector involvement. In 2003/04, the overall primary school enrolment rate was 68.4 per cent, while that of girls was 59.1 per cent. Encouraging signs are the participation rates of girls in both secondary (47.5 per cent) and higher education (23 per cent). Although the overall literacy rate of the population remains a dismal 36 per cent (national sources), Ethiopia is on track to reach the education-related MDGs by 2015. Continued progress will depend on whether the country can address major obstacles such as the shortage of qualified teachers and the high student/teacher ratio.

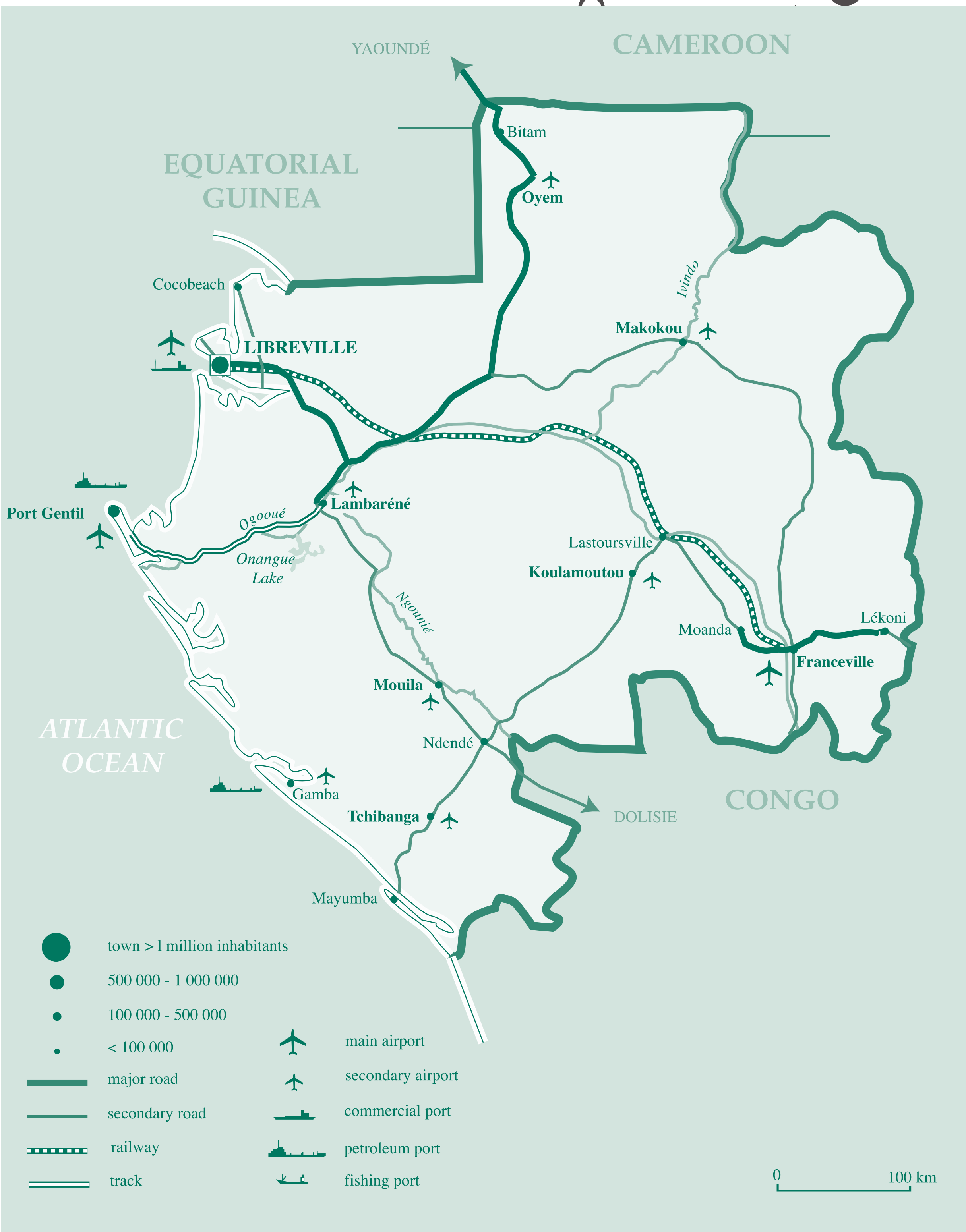
Gabon

key figures

• Land area, thousands of km^2	268
• Population, thousands (2005)	1 384
• GDP per capita, $ PPP valuation (2005)	7 858
• Life expectancy (2000-2005)	54.6
• Illiteracy rate (2005)	…

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/348406140330

Gabon



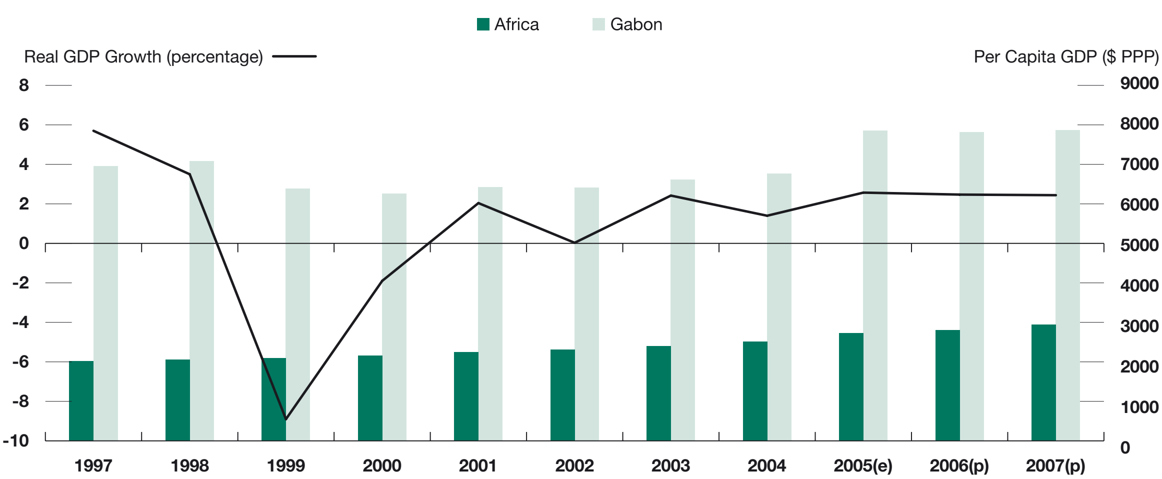
GABON IS AN INTERMEDIATE-INCOME country in per capita terms, but while GDP is growing, the UN Human Development Report for 2004[1] says the country has slipped in the Human Development Index. Thus, the assumption that good economic performance also advances human development does not hold true in Gabon, where poverty is increasing.

Despite the country's natural resources (forests, the sea, mines and agriculture), its economic results remain mediocre, mainly because of slow growth of the economic base and increased reliance on non-renewable natural resources. The economy is highly dependent on forestry and mineral raw materials, and hence at the mercy of changing international conditions. The government has acknowledged that oil production is falling and is making efforts to stimulate other production sectors to achieve better and steadier growth. A three-year growth strategy geared to reducing poverty aims to reverse the current trends and fire up the economy.

Dependence on oil could be a major source of instability, especially since production is declining.

Gabon's economic situation remained fragile in 2004, with growth of 1.4 per cent and an unemployment rate over 20 per cent due to a slump in the forestry, trade, oil exploration and services, banking and insurance sectors. Export revenue rose, however, boosted by the rise in world oil

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and Direction générale de l'économie data; estimates (e) and projections (p) based on authors' calculations.

prices. Real growth in 2005 was expected to be 2.6 per cent, slightly higher than in 2003, because of recovery in the non-oil sector, which was predicted to expand by about 3.3 per cent. Better growth was expected in the secondary sector (4.7 per cent) and services (2.6 per cent) than in the primary sector (1.6 per cent). Economic policy in 2006 is expected to include implementation of the first elements of the poverty reduction and growth strategy (PRGS) paper. The government has pledged to continue its budget

1. United Nations, Common Country Assessment for Gabon, 4-5 April 2005.

management and structural reform efforts of the past four years, expand basic infrastructure and improve the living standard of the very poor.

Recent Economic Developments

Real GDP has been increasing since 2003. In 2004 it grew 1.4 per cent and was expected to plateau at about 2.5 per cent in 2006 and 2007. The economy is focused on extracting surface and sub-surface natural resources. Since uranium mining ceased in 1999, the main exports have been oil, wood and manganese. The economy's dependence on oil is a major source of instability, as production has declined in recent years.

Oil's share in GDP has remained over 40 per cent for the past five years, reaching 41.7 per cent in 2003 and 44.4 per cent in 2004. Wood contributed only 2.4 per cent in 2004 (2.6 per cent in 2003). Mining accounted for 2.46 per cent in 2004 (1.64 per cent in 2003 and 1.60 per cent in 2002).

The oil sector comprises exploration and production. Exploration can be measured by the annual investment it attracts: 455.3 billion CFA francs in 2001, 238.7 billion in 2002 (down 47.6 per cent), 410.1 billion in 2003 (up 71.8 per cent) and 312.1 billion in 2004 (down 23.9 per cent). The decline in investment over this period reflects the slump in activity. Production fell in 2001 (4.5 per cent) and 2002 (2.5 per cent), then rose in 2003 (6.9 per cent) and 2004 (0.3 per cent). The average price of Gabonese crude increased from $27.16 a barrel in 2000 to $35.75 in 2004 (up 5.6 per cent in 2002, 15.8 per cent in 2003 and 28.3 per cent in 2004). Oil exports by volume were in step with production, falling in 2002 (7.98 per cent) and rising in 2003 (3.8 per cent) and 2004 (0.41 per cent). Overall, the oil sector has stabilised in the past few years.

Wood production fell 20 per cent in 2002, rose 6.9 per cent in 2003, then dropped 15.13 per cent in 2004. Exports dropped as well, by 16.6 per cent in 2002, 10.9 per cent in 2003 and 5.5 per cent in 2004. Log production fell off as a result of quotas, transport problems and the fact that the granting of felling licences ended in August 2004, and the downward trend was expected to continue in 2005.

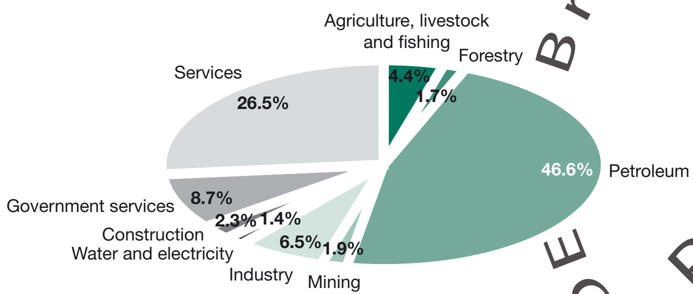
Mining consists chiefly of manganese, whose output rose 14 per cent in 2003 and 23 per cent in 2004, with exports up 0.56 per cent in 2003 and 28 per cent in 2004. Sales prospects in 2005 were good, and Comilog (Compagnie minière de l'Ogooué) predicted output of 3 million tonnes of ore, up 20 per cent on 2004. The Franceville and Okondja mines run by the Brazilian firm CVRD (*Companhia Vale do Rio Doce*) were expected to produce 2 million tonnes in 2005, making Gabon the world's leading source of manganese.

The secondary sector accounted for 9 per cent of GDP in 2004, two percentage points more than in 2003. Growing and refining of sugar by Sucaf (Société sucrière de Franceville) fell 4.4 per cent in 2004 (to 23 501 tonnes from 24 572 in 2003). The high level of stocks, due to Sucaf's problems in getting its output to consumers in 2003, explained the drop in production. Local sales rose, however, along with exports to Cameroon, Equatorial Guinea and São Tomé and Principe. Total sales by volume were 22 257 tonnes in 2004 (up from 21 710 in 2003). Production of yoghurt rose 11.5 per cent in 2004 (to 2 507 tonnes from 2 248.4 in 2003) and that of fruit juice 12.9 per cent (to 4 758 600 litres from 4 215 500 in 2003).

Sociga (Société des cigarettes du Gabon) recorded a 26.1 per cent production increase in 2004 after expanding capacity, but leaf tobacco output fell 8.1 per cent due to a decline in local demand.

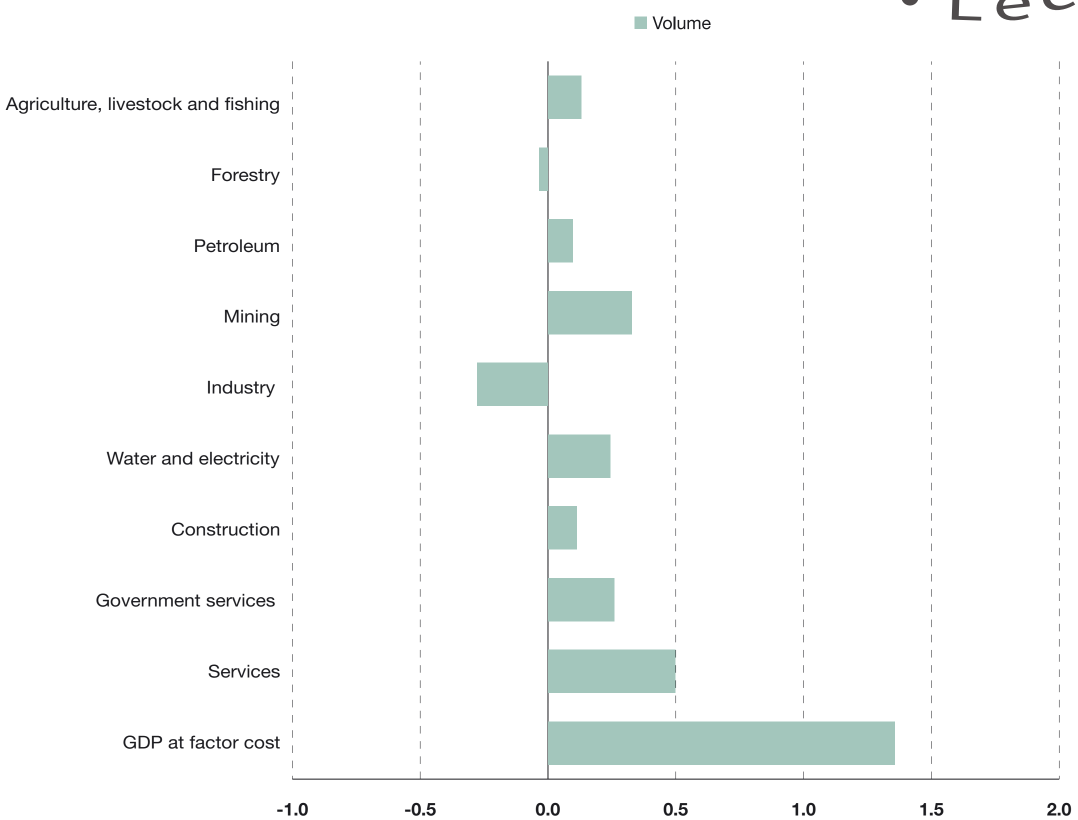
The wood industry comprises the sawing, peeling, slicing and carpentry/cabinet-making segments. The plan to industrialise the sector to make it more economically and socially profitable continued in 2004. The 50-odd processing units included 40 sawmills (mostly in Libreville and Port-Gentil), seven veneer and four plywood factories, and a slicing plant. The rate of processing in 2004 was between 30 and 40 per cent, with sawmills more active, producing 170 185 cubic metres (up 79.1 per cent from 95 000 cubic metres in 2003). Board production declined by 39.1 per cent (to 120 715 cubic metres from 198 208 cubic metres in

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on Direction générale de l'économie.

2003) because of the supply problems encountered by most processors that are not linked to a timber concession and because of the closure of firms such as Basso Timber Industries Gabon (BTIG), Placage de l'Ogooué and EFM (Entreprise forestière de Moanda). Four plants produce plywood: Rougier Gabon, Cora Wood (ex-CFG), Siboga (Société industrielle des bois du Gabon) and SED (Société équatoriale de déroulage). Plywood output rose 39.5 per cent in 2004 to 52 766.2 cubic metres (from 37 824 in 2003) due to the opening of a 20 000 cubic-metre processing plant by SED in 2003 and good performance by Cora Wood. The slicing segment consists of a single factory, "Les Bois Tranchés". Strong external demand boosted annual production of slicewood 19 per cent in 2004 to 3 493 cubic metres (2 936 cubic metres in 2003). Carpentry and cabinet-making operations are still outside the supervision of the water and forests authority.

These small, low-capacity establishments make furniture and decorative items for the local market.

The country's only oil refinery, Sogara, handled 729 539 metric tonnes of crude in 2004, up 4.4 per cent over the previous year despite technical stoppages to regenerate the catalyser. Annual production was 8.3 per cent higher, at 711 597 tonnes, but exports fell by half for lack of orders.

Water and electricity production and distribution is the monopoly of SEEG (Société d'énergie et d'eau du Gabon), a subsidiary of the Veolia Water group. The sector turned in a satisfactory industrial and commercial performance in 2004, with electricity output up 2.3 per cent in 2004 (to 1.334 billion KWh, from 1.304 billion in 2003) due to extension of the national grid for the independence holiday and a pick-up in mining and refining activity. Water production rose 6 per cent (to 63.233 million cubic metres from 59.64 million in 2003) due to a 7.7 per cent expansion of the supply network in the country's main towns. Volume water sales were up 6.5 per cent (to 52.92 million cubic metres from 49.67 million in 2003).

Other processing industries include chemicals, building materials and metal re-processing, which mainly serve the oil and construction sectors. The chemical industry (excluding oil refining), which consists of paint, lubricants and industrial gases, did well in 2004. Paint production rose 7.3 per cent to meet construction orders, amounting to 4 481 tonnes (up from 4 178 in 2003). Industrial gas output fell 6.5 per cent to 645 000 cubic metres (from 689 700 in 2003), mainly due to closure of welding factories and the loss of Angolan oil industry customers. Production of lubricants was up 0.8 per cent at 6 688 tonnes (6 634 in 2003) because of robust exports to Central African Economic and Monetary Community (CEMAC) countries, mainly Equatorial Guinea, Congo, the Central African Republic (CAR) and Chad. Output of clinker for cement declined 2.3 per cent to 210 539 tonnes (215 417 in 2003) due to the breakdown of a crusher at the Ntoum plant, but cement production rose 4 per cent in 2004, to 271 755 tonnes, owing to increased orders from the construction industry.

The construction industry has three kinds of firms: subsidiaries of multinationals, medium-sized private firms owned by Gabonese or foreigners, and sole proprietorships. The sector largely depends on government investments, which account for 80 per cent of its annual turnover. A new civil engineering firm, Entraco, started up in 2004, with three-quarters of its capital of 400 million CFA francs held by Gabonese.

The services sector contributed 39 per cent of GDP in 2004, up 1.2 per cent on the year. The growth of mobile phones since 2001 has strongly boosted the telecommunications sub-sector despite problems in extending the national network. Fixed-line subscribers fell 13 per cent in 2004 to 33 431 (from 38 415 in 2003). Vigorous efforts by mobile phone companies (promotion, coverage in provincial towns and so on) boosted the number of subscribers to 455 871 (377 357 in 2003). Subscribers to the satellite firm TVSat increased 8.6 per cent to 3 800 (from 3 500). Despite reduced turnover at Gabon Télécom (down 23.1 per cent), the sector recorded an increase of 5.3 per cent, to 227.35 billion CFA francs (215.9 billion in 2003). Value added rose 6.6 per cent to 197.5 billion CFA francs (185.53 billion in 2003).

The slowdown in consolidated trade activity seen in 2003 continued in 2004 because of poor forestry results, competition from the informal sector and a decline in household purchasing power. A two-year trend of sluggish vehicle sales continued, and the sub-sector's turnover shrank 13.6 per cent to 84.06 billion CFA francs (97.25 billion in 2003). Value added fell by 9.8 per cent.

In the international-class hotel sector, turnover, number of customers and occupancy rates all increased in 2004 thanks to official visits by prominent foreigners and the harvest festival in Haut-Ogooué province.

Other services generally slowed down in 2004. Despite a good year for housing services, various sub-sectors declined. Turnover in services to individuals rose 2.1 per cent, however, to 16.465 billion CFA francs (16.126 billion in 2003).

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**31.5**	**24.4**	**24.0**	**24.3**	**21.3**	**21.9**	**23.9**
Public	11.2	4.0	3.7	4.2	3.6	3.9	4.2
Private	20.2	20.5	20.2	20.1	17.7	18.0	19.7
Consumption	**44.5**	**56.4**	**51.9**	**50.6**	**40.7**	**38.4**	**39.2**
Public	10.8	10.9	10.1	9.2	7.7	7.3	7.6
Private	33.7	45.5	41.8	41.4	33.1	31.1	31.6
External sector	**24.1**	**19.2**	**24.1**	**25.1**	**37.9**	**39.6**	**36.9**
Exports	61.3	53.4	54.2	60.4	68.9	69.9	67.7
Imports	-37.2	-34.2	-30.1	-35.2	-31.0	-30.2	-30.8

Source: Direction Générale de l'Économie and IMF data; estimates (e) and projections (p) based on authors' calculations.

Total domestic demand rose 1.6 per cent in 2002 and 1.97 per cent in 2004, with a 0.53 per cent drop in 2003. External demand (in constant prices) fell back in 2004 due to weak oil sector growth, but better terms of trade maintained household buying power. Total consumption rose over the period, mainly driven by private consumption. Total investment grew slightly in 2002 (0.76 per cent), fell in 2003 (3.86 per cent) and then rose again in 2004 (1.56 per cent). Public investment increased 6.05 per cent in 2003 and 9.9 per cent in 2004, after falling slightly (2.95 per cent) in 2002.

Macroeconomic Policies

Fiscal Policy

The soaring price of crude oil, the stand-by arrangement with the IMF and Gabon's appearance before its Paris Club creditors made the government review its budgetary framework in 2004. The revised budget reiterated the main lines of the initial one, however, particularly in the priority given to health, defence, public security, justice and public works. In addition, reorganising public finances is still a major concern of the authorities. Revenue was higher in 2004, recurrent spending was brought under control and a plan to manage the public debt was devised.

Government efforts to boost revenue in 2004 targeted non-oil income by improving tax collection, especially on goods and services, and by broadening the tax base. Non-oil revenue (including grants) rose 7 per cent to 513.5 billion CFA francs (480.1 billion in 2003). Oil revenue, which made up 15.7 per cent of GDP, rose 5.2 per cent to 600 billion CFA francs (570.2 billion the previous year), mainly as a result of higher oil prices.

Control of spending is largely based on a major effort to curb recurrent expenditure by reforming the rules on management of public employees and reducing allocations to public utilities (water, electricity and phones).

Efforts were also made to repay the domestic debt, including through an agreement with the employers' association, the Confédération patronale gabonaise (CPG), which runs the Libreville Club of creditors holding more than 50 million CFA francs in public debt at the end of December 2003. Arrangements were made in 2004 for firms owed less than 50 million, with priority according to the age and nature of their claims.

The primary budget balance fell 34.7 per cent in 2002 and then rose in 2003 (48.45 per cent) and 2004 (8.6 per cent). As a percentage of GDP, it significantly improved in 2003 to 11.44 per cent (from 7.89 per cent in 2002) and to 11.53 per cent in 2004. The overall balance has also risen, from 3.51 per cent of GDP (2002) to 7.43 per cent (2003) and 7.55 per cent (2004).

Monetary Policy

Gabon's monetary policy is in the hands of the Bank of Central African States (BEAC), the joint central bank of Cameroon, the CAR, Chad, Congo and Equatorial Guinea, all members of CEMAC. The bank's main job is to keep the CFA franc pegged to the euro and control inflation. Monetary system resources increased 9.5 per cent in 2004 due to consolidation of non-monetary funds and a 10.5 per cent expansion of the money supply (M2) to 656.9 billion CFA francs in December 2004 (594.6 billion a year earlier and 601.5 billion in December 2002). Non-monetary deposits grew 5.5 per cent in 2004 to 163.8 billion CFA francs (155.2 billion in December 2003). This was due to appreciation of equity capital to 209.9 billion CFA francs (194 billion in December 2003), partly offset by a 7.4 billion drop in other net headings. The money supply (M2) thus increased over the 2002-04 period, despite a slight drop (1.14 per cent) in 2003.

The money supply was backed by net external assets of 285.5 billion CFA francs in December 2004 (75.5 billion a year earlier), an increase of 278.1 per cent due to strong performance of the oil and manganese markets and the stand-by arrangement with the IMF.

Outstanding government debt fell 45 per cent between December 2003 (207.9 billion CFA francs) and December 2004 (112.5 billion) due to a reorganisation of public finances that allowed the cash position to be consolidated. The net position of the government improved sharply, from 237.9 billion CFA francs in December 2003 to 148.2 billion a year later. The cash ratio also improved, to 61.8 per cent in December 2004 from 44 per cent a year earlier.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**33.1**	**31.6**	**29.8**	**29.2**	**27.9**	**27.8**	**27.9**
Tax revenue	11.7	12.4	12.3	11.9	10.7	10.4	10.5
Oil revenue	21.4	19.1	17.5	17.3	17.1	17.3	17.3
Total expenditure and net lending[a]	**31.6**	**28.1**	**22.4**	**21.7**	**17.7**	**17.1**	**17.7**
Current expenditure	20.4	23.6	18.7	17.5	14.0	13.1	13.4
Excluding interest	*14.1*	*19.3*	*14.7*	*13.5*	*11.2*	*10.8*	*11.1*
Wages and salaries	6.3	6.4	6.5	5.9	4.8	4.6	4.7
Interest	6.3	4.4	4.0	3.9	2.8	2.3	2.3
Capital expenditure	11.2	4.0	3.7	4.2	3.6	3.9	4.2
Primary balance	**7.8**	**7.9**	**11.4**	**11.5**	**12.9**	**13.0**	**12.5**
Overall balance	**1.5**	**3.5**	**7.4**	**7.5**	**10.1**	**10.7**	**10.2**

a. Only major items are reported.
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

External Position

Changes in the balance of payments in recent years reflect the instability and fragility of Gabon's economy, as the overall balance was structurally in deficit over the period. The deficit worsened in 2002 to 138.5 billion CFA francs, but shrank 8.6 per cent to 49.1 billion CFA francs in 2004 (53.7 billion the previous year), mainly as a result of a better trade balance and, to a lesser extent, a slight drop in the capital deficit.

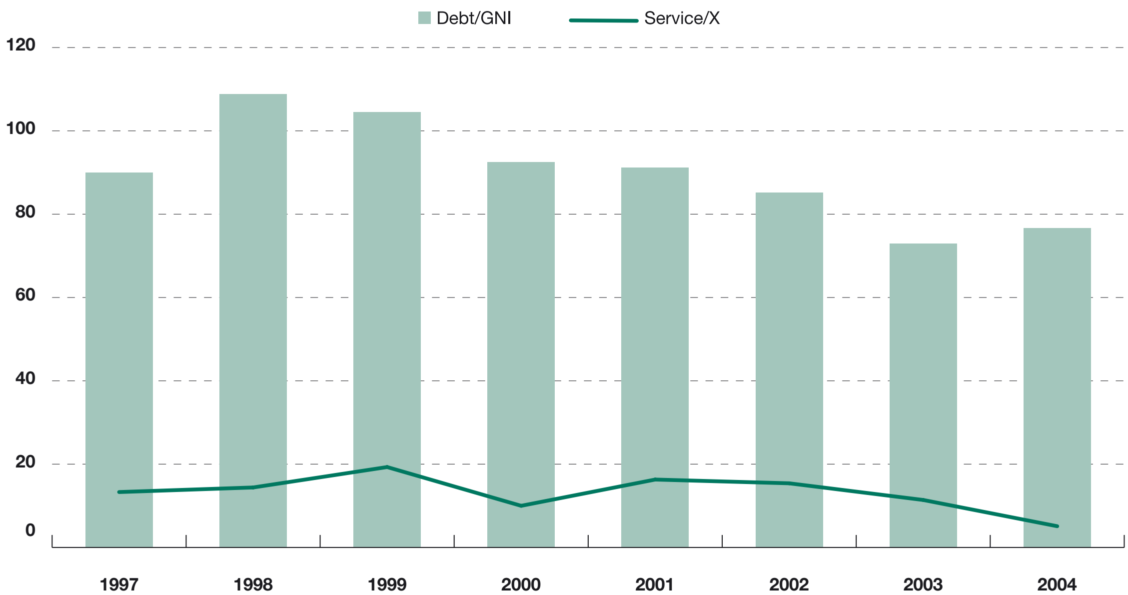
The current account balance, which was positive throughout the period, rose in 2002 (2.5 per cent) and very sharply in 2003 (79.75 per cent). It then fell back 3.23 per cent in 2004, to 409.8 billion CFA francs (from 423.5 billion in 2003), due to a big drop in the factor income balance (97.7 per cent) and the services balance (15.6 per cent) despite a healthy trade balance (27.9 per cent). Services, factor income and current transfers were all in serious deficit.

Table 3 - Current Account (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	39.4	32.7	35.3	39.9	50.2	51.3	49.0
Exports of goods (f.o.b.)	57.6	51.6	52.5	58.8	67.6	68.5	66.3
Imports of goods (f.o.b.)	-18.2	-18.9	-17.2	-18.9	-17.5	-17.2	-17.3
Services	-26.8	-19.8	-17.0	-23.5			
Factor income	-5.4	-3.4	-3.3	-3.2			
Current transfers	-4.4	-2.7	-3.0	-2.7			
Current account balance	**2.8**	**6.8**	**12.0**	**10.5**			

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - Stock of Total External Debt (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

The trade surplus reached 1 587.4 billion CFA francs in 2004 (up from 1 241.2 billion in 2003) due to a 21.1 per cent rise in exports by value, while imports grew by 7.2 per cent. Exports rose because of the higher oil price (up 29.5 per cent on average over the year), a 2.6 per cent increase in volume exports of oil and a 25.8 per cent rise in manganese exports, despite an average 11.9 per cent drop in the dollar/CFA franc exchange rate. The services deficit worsened by 15.6 per cent, mainly because of a business slowdown for local haulage operators and service providers.

The government obtained relief on servicing its external debt from its Paris Club creditors amounting to 470 321 billion CFA francs in 2004.

Structural Issues

Recent Developments

Further structural reforms are needed to diversify the economy and improve medium-term growth prospects.

The privatisation of public enterprises is governed by Law 01/96. The privatisation committee set up within the finance ministry must produce a report each year specifying which operations are required under this law. The transparency of these operations is ensured by systematic use of international competitive bidding for enterprises being sold off. The privatisation programme, supported by the World Bank and the African Development Bank, has been largely successful, though some delays have been experienced owing to the complexity of some operations and weak institutional capacity. Fourteen of the country's 40 public firms have been sold off and eight dissolved, while nine are still in the privatisation pipeline.

Privatisations in 2004 included Agrogabon, Hevegab and the Nyanga cattle ranch, all sold to the Belgian SIAT (Société d'investissement pour l'agriculture tropicale) group, whose subsidiary SIAT Gabon has pledged to invest 8 billion CFA francs. It is currently restructuring Agrogabon to enable the firm to stay in business. The Bitam and Mitzic rubber plantations resumed production in October 2004. At a 16 July 2004 board meeting of horticultural producer Agripog, majority shareholder Total Gabon said that it wanted to make the investments needed to keep the firm going and hoped its privatisation would soon be complete.

The government reviewed the privatisation arrangements for Gabon Télécom on 4 September 2004 and agreed to give up 50 per cent of the capital instead of the 35 per cent originally planned, a move that could attract more investors.

The government also decided to sell part of the national airline Air Gabon to get the company back on a sound footing. Studies of the process were due to allow choice of one or more groups of investors by the end of 2005. The interministerial privatisation commission decided that the Compagnie nationale de navigation intérieure (CNNI) needed thorough restructuring before it could be placed on the market. Studies for this began at the end of June 2004, and a plan for consolidating the firm's operations was agreed on.

Planned redundancy was introduced in March and April 2004 at the national ports authority (Oprag – Office des ports et rades du Gabon) based on early retirement at age 51; this measure affected 62 employees and cost 1 713 billion CFA francs. Another 71 employees chose voluntary departure, which cost 1 736 billion CFA francs. The privatisation commission and port franchisee Sigeprag (Société d'investissement et de gestion des ports et rades du Gabon) planned to open up Sigeprag's capital to local investors in 2005, offering 30 per cent of the firm.

Privatisation of some firms, such as the water and electricity companies, simply replaced a state monopoly by a private one without significantly improving service or reducing costs. Some franchise operators, such as those running the railway, did not fulfil their contractual obligations. State subsidies continued to some firms (such as Gabon Poste), and rules for non-competitive sectors were not properly enforced. Audits were being done for a plan to retrain workers laid off by privatisation.

Agriculture has been hit by the oil boom, and the sector's output and share of GDP are steadily declining. Farming is still a major source of jobs, however, and could make a significant contribution to the fight against poverty. To restructure and upgrade the sector, the government has refurbished the country's only seed research and trial facility, the Centre d'introduction, d'adaptation, d'amélioration et de multiplication de matériel végétal (Ciam). It has also set up an agronomy and biotech institute at the Masuku Science and Technical University (USTM) to diversify the training offered there so as to meet the country's need for engineers specialising in agricultural techniques and agronomic design. The institute will also provide ongoing training and refresher courses for managers in agriculture and the agro-food sector. The goal is to increase agriculture's contribution to GDP to 10 per cent by 2015 from the current 4 per cent. Agricultural policy focuses on encouraging family farms, growth of small and medium-sized enterprises and a shift from extensive production systems to intensive, diversified and sustainable systems that protect the soil. In 2015, peasant farming, with multi-purpose family plots, is expected to remain the main form of agricultural production.

The financial sector is now more stable, but further progress is needed. Performance with respect to some prudential ratios (such as capital adequacy, risk diversification and the liquidity ratio) varies from one bank to another. The banking sector reflected the overall economic sluggishness in 2004 and produced mixed results, with a sharp drop in loans to the economy, a very slight increase in the stock of collected deposits and little change in net banking profits. Short-term loans fell 15 per cent in 2004 to 120.6 billion CFA francs (141.4 billion in 2003). Medium- and long-term loans declined to 207.6 billion CFA francs (from 242.2 billion in 2003). Short-term loans accounted for the bulk (52.7 per cent) of total outstanding loans in 2004. Small and medium-sized firms still find it difficult to obtain credit, and growth of micro-finance institutions is being encouraged.

The country still has no coherent national programme for good governance, though this is a key element in the 2004/05 reform agenda and a strategic goal in the interim poverty reduction strategy paper (PRSP). The reforms aim for more transparent management of public funds, administrative reform, an improved business environment and drawing up a national good governance programme.

Transport Infrastructure

Gabon has 9 170 kilometres of roads, 937 kilometres of which are paved and 8 233 unpaved. Most of them are in poor condition due to lack of maintenance, and the cost of their eventual repair will be much higher than if they had been regularly maintained. This situation makes vehicular movement difficult and transport costs abnormally high, restricting trade and isolating towns and villages. The first phase of the PARR road repair programme that began in August 1993 aimed to pave 1 936 kilometres of roads in five years to link provincial capitals to Libreville and with one another. By 2005, however, only 538.8 kilometres (27 per cent) had been resurfaced, upgraded or opened, at a cost of 185.8 billion CFA francs – 66 per cent of the programme's total budget of 279.1 billion CFA francs. The government was to focus in 2004/05 on upkeep, preservation and protection of the road network. This objective requires strict supervision of the road maintenance fund, with better quality control and co-ordination of government and private sector activity (20 per cent of the network is being handled by the state and 80 per cent by private firms). The PARR aims to link the north-south and east-west routes and establish cross-border links to neighbouring countries.

The country has 28 airports, three of them international, which works out to one airport for every 40 000 inhabitants, a result of the poor road network. Libreville airport, a national and international hub, has been franchised for ten years to the firm Aéroport de Libreville (ADL). The government has focused on maintaining airport infrastructure, regulating air transport and training personnel. The main obstacles remain the unsuitable regulatory and institutional framework and the shortage of funding.

Gabon has an 800-kilometre coastline, and more than 90 per cent of the country's trade goes by sea through its two main ports, at Libreville (Owendo) and Port-Gentil. Although both ports were franchised to Sigeprag on 20 September 2003, they are still outdated and have no modern handling equipment, such as the dockside gantry cranes installed in the ports of Cameroon and Equatorial Guinea. Growth of sea transport is thus hampered by lack of equipment and facilities, the high cost of cargo handling, insufficient marker buoys and the lack of safe passenger ships between Libreville and Port-Gentil.

The Ogooué River and Fernand Vaz Lagoon are the main links with the interior, used by cargo vessels, tanker barges and wooden barges. The CNNI took delivery of two new vessels in 1999, the cargo ship Le Mahothès on the Libreville/Port-Gentil run and the ferry Le Fernand Vaz to operate on the lagoon of the same name. The two ships, paid for by the government, are now out of operation because of lack of maintenance. The main problems on both river and lagoon are tricky navigation on the river, especially in the dry season, great danger to cargo and passenger traffic because of unreliable marker buoys, lack of nautical facilities and the shortage of piers and landing stages.

Infrastructure projects are funded inadequately or not at all, and as a result the contractors involved sometimes stop work abruptly and lay off employees.

This has resulted in cost overruns, and 60 billion CFA francs are needed to complete current projects. Sub-regional road work could also be funded by international organisations, as with the three-country (Cameroon, Equatorial Guinea and Gabon) Projet d'aménagement des trois frontières, which is entirely paid for by the European Union.

Political and Social Context

The political democratisation that began in 1990 has made good progress, with gradual establishment of the rule of law and regular holding of presidential, parliamentary and local elections despite low voter turnout. The opposition took part in the 27 November 2005 presidential election, when the incumbent, President Omar Bongo, was re-elected with 70.89 per cent of the vote.

Government bodies are strongly personalised. Any major changes often come from the very top, so governmental, institutional and private initiative is limited. This produces apathy and unwillingness to take responsibility in both government and civil society. Lax management of public funds and the general climate of impunity have also fostered apathy. The country's top leaders need to take firm action to strengthen the democratic process and restore the credibility of public services. The work of the Commissariat général à la réforme administrative (CGRA) has had little impact in government ministries, and the image of the public administration is very poor.

Civil society is supposed to play a big part in the new pluralist system, but since the democratic process began only recently and training and funding are inadequate, civil society groups cannot play their counterbalancing role to strengthen the rule of law. Similarly, decentralisation is not yet working because of lack of trained personnel and funds.

The legal system and auditing of public accounts are hindered by outdated laws; lack of motivation and professionalism on the part of legal officials, mainly because of their worsening standard of living and working conditions; the corruption and politicisation of the judiciary; the meagre investigatory resources of the national auditing board; failure to prosecute and punish embezzlement and mishandling of public funds; and the inefficiency of government auditors.

In education, the priorities are to provide all children with basic education of good quality as a way to lower the dropout rate and ensuring that the number and quality of those completing basic education are reasonably in tune with the economy's need for skilled workers.

The state of the health system can be seen by comparison with other countries. Morocco, which spends the same amount per capita on health as Gabon, has an infant mortality rate of 39 per thousand, to Gabon's approximately 60 per thousand. Gabon spends three times more per capita on health than Ghana, but Ghana has a lower infant mortality rate (57 per thousand). Thus, despite Gabon's health spending, indicators are below expectations and on a par with poorer countries. Life expectancy is quite low (about 54 years) and maternal mortality very high, at 520 per 100 000 live births, a rate higher than in many countries with lower per capita income such as Cameroon and Ghana. The synthetic fertility index (SFI) has fallen over 30 years, from 5.3 children per female in 1975 to 4 in 2005, which is low compared with neighbouring Congo and Cameroon.

Gabon has declared 7 777 cases of HIV/AIDS to UNAIDS since the start of the pandemic, 878 of them in 2004, when 3 920 people died of the disease, increasing the number of AIDS orphans to 12 290. National incidence, calculated from sentinel groups such as pregnant women, was estimated at 8.1 per cent (plus or minus 2.5 per cent). The number of infected adults is thus estimated at 45 000 in 2004. Progress has nevertheless been made in combating the disease, which is now officially treated as a chronic illness, and 80 per cent of patients in referral centres are getting prolonged anti-retroviral treatment, mostly tri-therapy. Mother-to-child transmission remains high.

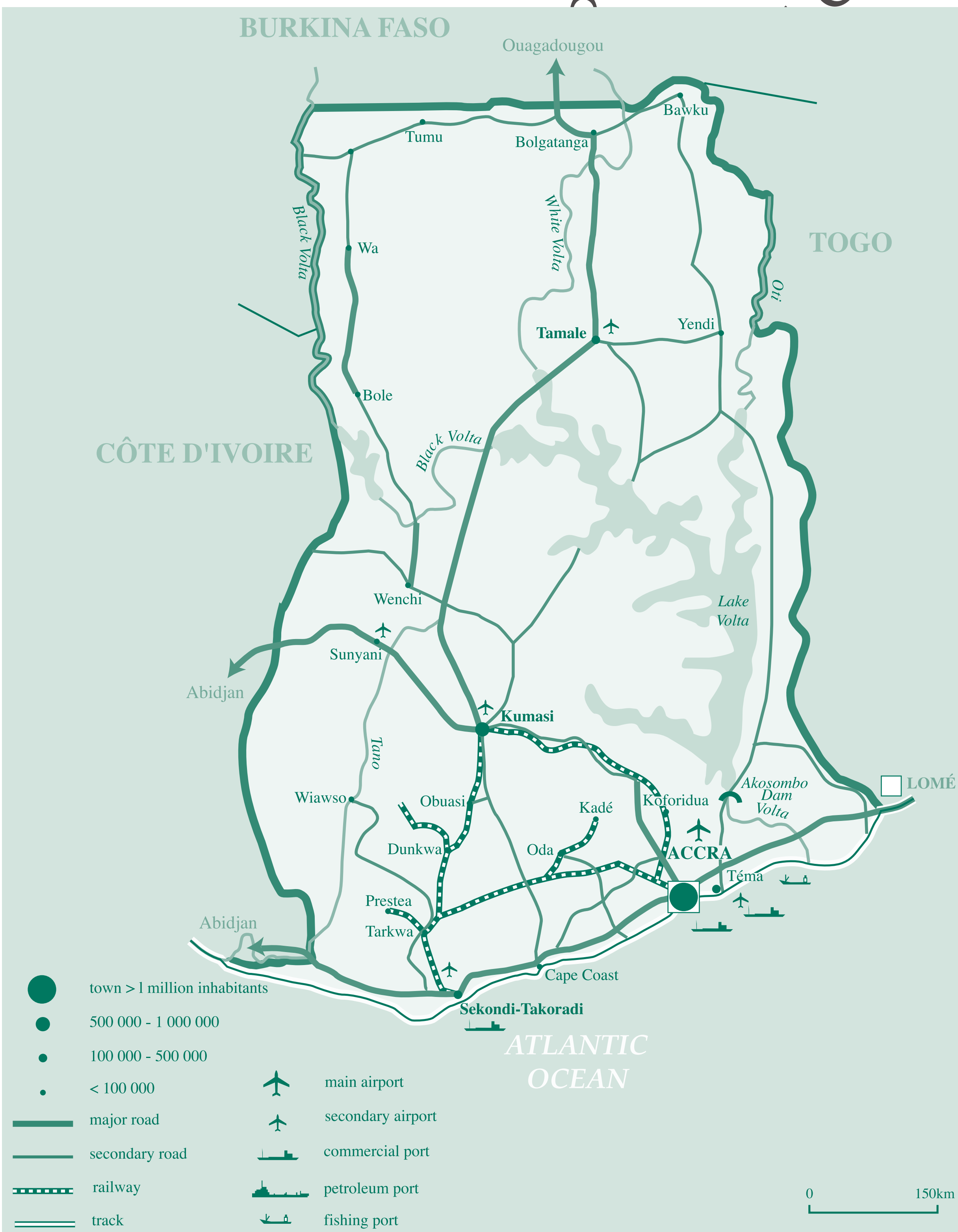
Ghana

key figures

• Land area, thousands of km^2	239
• Population, thousands (2005)	22 113
• GDP per capita, $ PPP valuation (2005)	2 248
• Life expectancy (2000-2005)	56.7
• Illiteracy rate (2005)	23

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/181581784855

Ghana



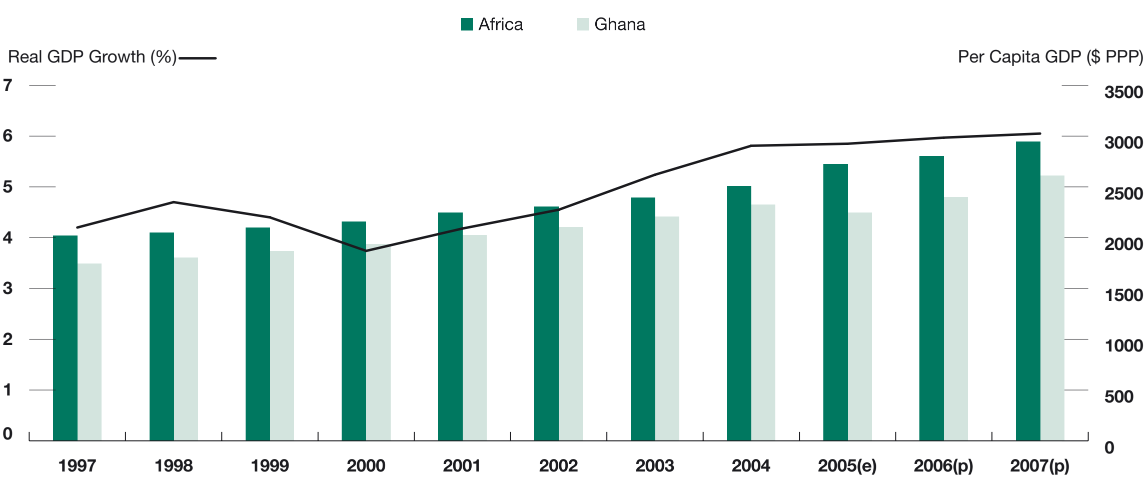
THE GHANAIAN ECONOMY IS REAPING the benefits of macroeconomic and structural reforms and nearly fifteen years of political stability. Strong domestic revenue mobilisation, prudent expenditure management, and debt relief granted under the Heavily Indebted Poor Countries (HIPC) debt reduction programme, along with recent debt reduction promises by the G8, have improved the government's fiscal position. At the same time, credible monetary policy has eased inflationary expectations, brought down the cost of borrowing and provided stability in the foreign exchange market. This improving macroeconomic stance has contributed to a recent upsurge in economic growth, with real GDP growth reaching an estimated 5.9 per cent in 2005, up from the average annual rate of 5.5 per cent realised during 2000-04. Growth is projected to increase to about 6.1 per cent in 2007.

Economic growth has been led by agriculture, notably three consecutive bumper cocoa crops resulting from both favourable weather and improving policies. This strong growth performance has enabled Ghana to accelerate implementation of its poverty reduction strategy. Moving forward, aggressive structural reforms, particularly in the financial sector have put the economy on course to stimulate domestic entrepreneurship and attract greater foreign investment in the coming years.

The steady growth from prudent macroeconomic policies, structural reforms and strong agricultural performance needs to increase substantially to generate employment and further reduce poverty.

Nonetheless, Ghana must increase its economic growth substantially if it is to generate adequate employment growth, further reduce poverty and attain middle-income status over the next decade. To do so, Ghana must improve its transport infrastructure, especially the road network. Currently, less than 50 per cent of the country's roads are in good condition, and the railway network is almost non-functional. These infrastructural deficiencies constitute a major impediment to private sector development and increased foreign investment. Perceptions that corruption is increasing also pose a threat to continued growth and require attention from the government.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

Ghana's economic growth record over the past two decades has been among the strongest in Africa at around 4.5 per cent annually. Growth accelerated to about 5.3 per cent in 2000-03, rose further to 5.8 per cent in 2004 and to an estimated 5.9 per cent in 2005. Growth is expected to remain strong at about 6 per cent in both 2006 and 2007.

Recent growth has been driven largely by the agricultural sector, the largest sector of the economy accounting for nearly half of total GDP and about 60 per cent of total employment. The sector grew by 7.5 per cent in 2004 and was estimated to have expanded by 6.5 per cent in 2005. Favourable weather has been the main factor behind the rise in agricultural output. However, higher producer prices and greater use of farm machinery and irrigation were also important.

Rising cocoa production has underpinned the growth in agricultural output. Cocoa production rose by nearly 30 per cent in 2004 yielding a record crop of 736 911 tonnes in the 2003/04 crop season. Cocoa output decreased somewhat to 583 109 tonnes in the 2004/05 crop season which nonetheless represented a strong performance by historical standards. The strong cocoa output in 2004 and 2005 owed much to improved crop management and to the mass spraying of cocoa farms under the government's Cocoa and Pests Control Programme, which aims to control capsid pest and black pod disease. The gradual increase in the domestic producer price of cocoa, which is now nearly 70 per cent of the world price, has also provided a major incentive to the country's smallholder cocoa farmers. However, due to declining world prices of cocoa since 2003, even maintaining guaranteed payment levels will be a challenge.

Cocoa and other crops, especially oil palm, cassava, sorghum and millet have benefitted from the "Presidential Special Initiatives", which aims to modernise Ghanaian agriculture through the dissemination of better farming practices, the provision of irrigation facilities, and distribution of improved varieties of seeds and fertilisers. As part of the second Ghanaian Poverty Reduction Strategy (GPRS II), the government plans to expand these initiatives in 2006 through measures to enhance access to credit and agricultural inputs and by increasing availability of extension services.

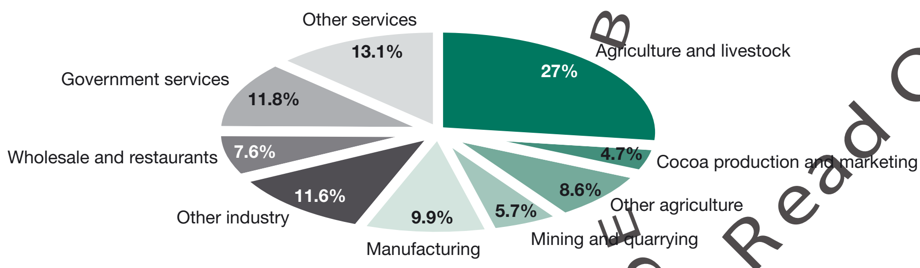
Nonetheless, the agricultural sector faces major structural problems. For example, it is estimated that only 5 per cent of irrigable land in Ghana is actually irrigated; and extension services are so limited that each technical officer is responsible for helping nearly 2 000 farmers. Moreover, 40 per cent of all agricultural output is wasted annually due to inadequate storage facilities, marketing chains and poor infrastructure.

Although the industrial sector has continued to show signs of recovery, industrial production is not growing rapidly enough to attain the government's objective of an industrial sector that accounts for about 37 per cent of GDP by 2010. In order to achieve this objective, industry would have to grow at an annual rate of at least 12 per cent. In 2004, industrial output grew by 5.1 per cent and accounted for 21.5 per cent of total GDP. This share was estimated to have risen to 23.9 per cent in 2005 following estimated growth of 5.6 per cent.

Manufacturing, the largest component of industrial output, has grown more slowly than the rest of the economy since 2002. In 2004, the manufacturing sub-sector's growth rate stood at 4.6 per cent, almost the same level as in the preceding two years. In 2005, manufacturing output was estimated to have expanded by about 5 per cent. The mining and quarrying sub-sectors have also grown a little more slowly than the economy as a whole, with the growth rate slowing from 4.7 per cent in 2003 to 4.5 per cent in 2004 and an estimated 3 per cent in 2005. The only industry experiencing faster growth is cocoa processing. As a result of new foreign investment in processing plants, the volume of cocoa processed domestically is expected to rise to 250 000 tonnes by 2007 from just 70 000 tonnes in 2005.

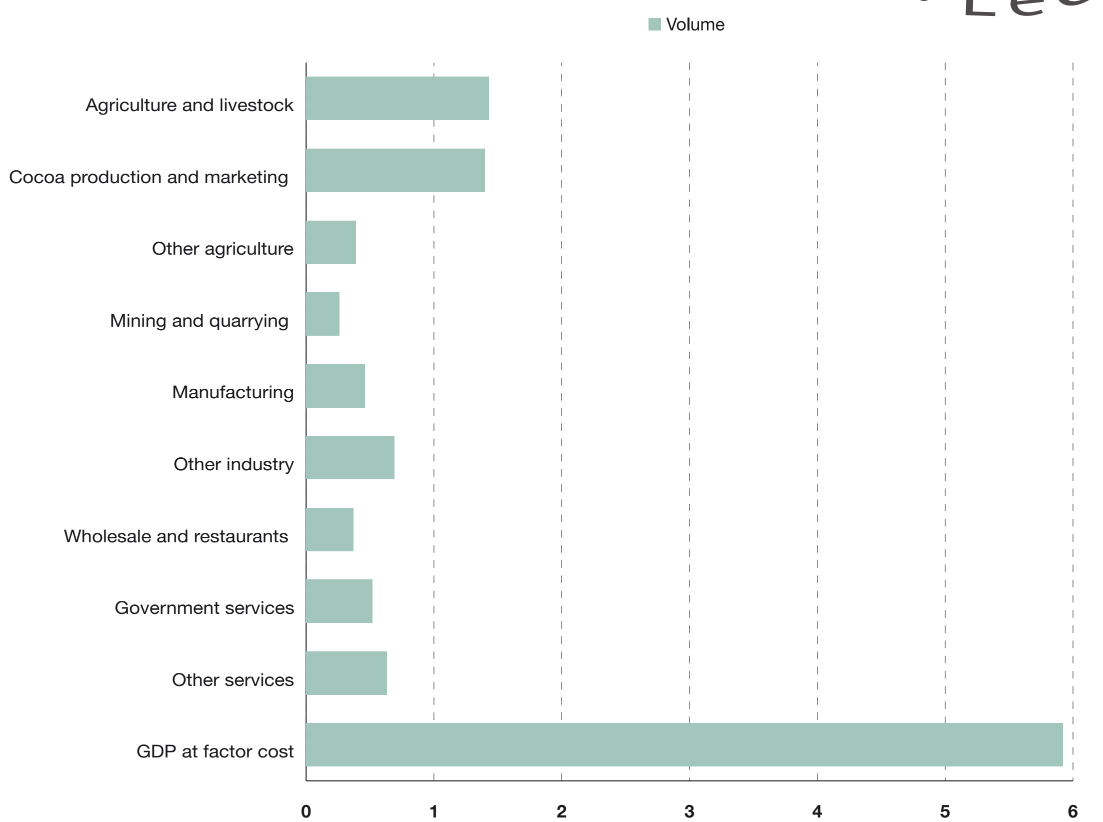
Industrial output has remained concentrated on a few capital-intensive products: petroleum and oil

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

refining, non-ferrous base metals, cement, and other non-metallic mineral products. The government's recent industrial diversification and growth strategy targeted textile and information and communication technology (ICT) industries but these efforts have largely failed. Some had hoped for a revival of the local textile industry as Ghanaians return to traditional forms of dress using the *kente* and *adinkra* designs. However, the local industry, relying on antiquated machinery and producing low volumes, has continued to decline in the face of cheap imports of textiles and second-hand clothing.

Accelerated industrial growth requires assistance to small- and medium-sized enterprises, notably regarding access to credit, more reliable and cheaper telecommunications and electric power, improved transportation and other public services, and reduced corruption.

In 2005, the service sector grew at an estimated rate of 5.4 per cent. Social services, especially education and health, were boosted by the Ghana Education Trust Fund (GET Fund) and funds released by HIPC debt relief. Financial services also expanded with the opening of new banks and introduction of new financial services. The establishment in 2003 of the Kofi Annan Center of Excellence and the extension of ICT facilities to schools and colleges in the country by Ghana Telecom contributed to the expansion in telecommunications. Growth in mobile telecommunications was particularly strong in 2005, due to an expansion of services by Millicom and Scancom. These activities have contributed to an increase in tele-density (telephones per 100 persons) from about 5.2 per cent in 2003 to 6.6 per cent in 2004.The number of phone lines more than doubled from about 650 000 in 2002 to over 1.3 million in 2004.

Tourism continues to boom, and the sector is now Ghana's third largest foreign exchange earner. The number of visitors to the country has maintained an upward trend since 2000 with an increase in arrivals of 11 per cent in 2004 and an estimated increase of 10 per cent in 2005. Tourist receipts also increased sharply, by nearly 17 per cent in 2004 followed by a further increase of 16 per cent in 2005. The increase in tourism has been driven by the increased promotion of individual and conference tourism, and by improved security, especially around the airport and the main tourist attractions. The increased number of flights into Ghana by several international airlines is both a cause and an effect of this tourism boom. Nonetheless, the majority of tourists continue to be Ghanaian expatriates.

These developments in various economic sectors also reflected, and sometimes contributed to, an increase in the growth rate of total investment in 2004, which was sustained in 2005. In particular, private investment grew strongly in 2004 and 2005, suggesting that the private sector was beginning to play its designated role as an engine of growth. Private capital formation is projected to remain strong in 2006 and 2007 as confidence in the economy grows on the back of the government's prudent macroeconomic policies and political stability of the country. Similarly, the government's expansionary fiscal stance has been reflected in rising public investment, although in 2004 and 2005 much of this investment continued to be financed by foreign savings. The economy is expected to maintain a similar structure of aggregate demand in 2006 and 2007.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**24.8**	**19.7**	**22.9**	**27.9**	**30.2**	**30.9**	**31.7**
Public	12.5	6.1	8.9	11.9	12.4	12.7	13.1
Private	12.3	13.6	14.0	16.0	17.8	18.2	18.6
Consumption	**95.8**	**92.7**	**89.1**	**92.8**	**94.7**	**95.3**	**94.2**
Public	15.1	17.6	17.7	16.0	16.7	17.0	16.6
Private	80.7	75.1	71.4	76.8	78.1	78.3	77.5
External sector	**-20.6**	**-12.4**	**-12.1**	**-20.7**	**-24.9**	**-26.2**	**-25.9**
Exports	32.4	42.5	40.7	37.0	33.3	29.6	26.7
Imports	-53.0	-54.9	-52.7	-57.7	-58.2	-55.8	-52.5

Source: IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Macroeconomic Policies

Fiscal Policy

Ghana's recent macroeconomic policy has focused on achieving stability as a prerequisite for the HIPC completion point in 2004 and beyond. Within this context, the main goal of the government's fiscal policy has been to reduce the ratio of domestic debt to GDP by reducing net domestic borrowing through controlling the fiscal deficit, as well as extending the maturity of outstanding debt.

The policies have been largely successful insofar as the domestic debt to the GDP ratio fell from about 21 per cent in 2004 to 19.3 per cent in 2005. Moreover, the ratio of domestic debt service to total revenue fell from 45.1 per cent in 2003 to 28.4 per cent in 2004 and was estimated at 27 per cent in 2005.

The overall fiscal deficit, which fell from 3.3 per cent of GDP in 2003 to 3.1 per cent in 2004, is estimated to have risen to 4.4 per cent in 2005. The overall fiscal deficit is projected to deteriorate further in 2006 and 2007 as the government maintains an expansionary fiscal stance.

Increasing revenues remains a key objective of fiscal policy. Improved tax administration, as well as new taxes, led to an increase in the fiscal revenue to GDP ratio from 20.2 per cent in 2003 to 22.3 per cent in 2004 and an estimated 22.4 per cent in 2005. Starting in 2004, fiscal agencies were allowed to retain 3 per cent of revenue collected to meet their administrative costs; this measure appeared to yield the desired results as all agencies exceeded their targets. The National Health Insurance Levy, implemented in 2004, is estimated to yield revenue of about 1 per cent of GDP annually. Despite these advances, the tax base remains too narrow, with a high dependence on petroleum taxes, and foreign aid remains a large source of funding for the government.

Government expenditure has increased in step with revenues, preserving fiscal stability. Total expenditure rose to 33.3 per cent of GDP in 2004 and to an estimated 34.3 per cent of GDP in 2005 from 28.8 per cent of GDP in 2003. The government has attempted to improve control of expenditures through a number of legislative measures enacted in 2004. These included the Financial Administration Act, the Internal Audit Act and the Procurement Law, which provided clearer procedures on expenditure management within the public sector. The 2005 National Petroleum Authority Act mandated that the National Petroleum Authority (NPA) bring domestic petroleum prices closer to world prices, thereby eliminating government subsidies on petroleum products estimated at 2.3 per cent of GDP. Reductions in market interest rates on debt instruments contributed to lower debt-service payments. Continued control of expenditures is threatened in the near term, however, by a rising public sector wage bill and increasing political pressures as the 2008 general elections approach.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total Revenue and grants	**18.7**	**21.1**	**25.5**	**30.1**	**29.9**	**29.7**	**29.4**
Tax revenue	14.7	17.5	20.2	22.3	22.4	22.5	22.5
Grants	1.4	3.1	4.7	6.4	6.0	5.7	5.4
Total expenditure and net lending	**29.0**	**26.1**	**28.8**	**33.3**	**34.3**	**34.3**	**33.9**
Current expenditure	16.5	20.0	19.8	20.9	21.4	21.1	20.4
Excluding interest	*10.3*	*13.8*	*13.7*	*16.6*	*17.5*	*17.9*	*17.7*
Wages and salaries	5.3	8.5	8.4	8.7	8.8	8.9	8.6
Interest on public debt	6.3	6.1	6.2	4.3	3.9	3.2	2.6
Capital expenditure	12.4	6.1	8.9	12.4	12.9	13.2	13.6
Primary balance	**-4.0**	**1.2**	**2.9**	**1.2**	**-0.4**	**-1.3**	**-2.0**
Overall balance	**-10.3**	**-5.0**	**-3.3**	**-3.1**	**-4.4**	**-4.6**	**-4.6**

Source: Authors' estimates (e) and projections (p) based on domestic authorities' data.

Monetary Policy

Ghana's monetary policy remains focused on bringing inflation down to single digits and limiting exchange-rate volatility. In recent years, the growth of monetary aggregates has remained consistent with the government's targets. The annual growth in broad money (M2) slowed from 35.8 per cent in 2003 to 26.6 per cent in 2004 and to 19.1 per cent by September 2005. The continued slowdown in the expansion of monetary aggregates accommodated lower money demand following the introduction of 2- and 3-year Bank of Ghana bonds.

Inflation remained stable despite a nearly 50 per cent increase in petroleum prices in early 2005 and a further 5 per cent increase late in the year. However, these petroleum price increases prevented the government from achieving its target of single-digit inflation. The rate of inflation stood at 12.6 per cent in 2004 and is estimated to have remained very similar in 2005. Inflation is projected to ease in 2006 and 2007 as prudent monetary management continues.

The easing of inflationary expectations and declining public sector borrowing has led to a continued decline in interest rates. In the face of the fall in inflation in 2004 and relative exchange-rate stability, the Bank of Ghana cautiously lowered its policy rate from 20 per cent in February 2004 to 15.5 per cent in November 2005. Short-term rates have declined correspondingly, with the yield on 91-day Treasury bill falling from 36 per cent in June 2003 to 18 per cent in May 2004. By the end of September 2005, the rate had dropped further to 13.34 per cent. Although declining much faster than deposit rates, lending rates remained high at 27.75 at the end of September 2005.

Ghana operates a managed floating exchange-rate regime, with interventions from the central bank limited to smoothing short-term fluctuations in the foreign exchange market. Higher levels of remittances, steady donor inflows and stronger earnings from cocoa helped to offset the effects of higher oil prices on the current account balance, with the cedi consequently depreciating only slightly in 2004 and 2005 by 2.2 per cent and 2.1 per cent respectively. This recent stability stands in contrast to the extreme volatility seen in the past, particularly the sharp depreciation of 57 per cent in 2000.

External Position

The government's development strategy relies on export growth and increasing inward direct investment. In this vein, in early 2005 the government launched the National Trade Policy, which aims to enhance Ghana's international competitiveness and secure greater market access for Ghana's products. In particular, the policy seeks to promote regional integration within the Economic Community of West African States (ECOWAS) through the harmonisation and reduction of tariffs and non-tariff barriers to trade. The government also finished planning the Trade Sector Support Program (TSSP) in 2005. The TSSP aims to facilitate the development of commercially-viable domestic and export-oriented enterprises, especially in rural areas. In line with the government's renewed determination to make the private sector the engine of growth in the economy, this programme may be given the necessary push to succeed.

Ghana's trade and current account deficits both widened in 2004 and 2005, exerting some downward pressure on GDP growth. The trade deficit rose from 10.3 per cent of GDP in 2003 to 17.1 per cent in 2004 and is estimated at 20.6 per cent in 2005. In dollar terms, total imports rose by 32.9 per cent in 2004 and by a further 31.9 per cent in 2005 mainly due to rising crude oil prices. Export earnings (also in dollar terms) rose more slowly by 8.7 per cent in 2004 and are estimated to have increased by 4 per cent in 2005 primarily due to increases in the main traditional exports (cocoa, gold and timber products). There has been little success in export diversification, as noted earlier. As a result, exports are projected to stagnate, contributing to a continuing widening of the trade deficit in 2006 and 2007.

Despite the large increase in the trade deficit, strong aid and capital inflows allowed Ghana to record an overall balance of payments surplus in 2005 of $86.7 million following the small deficit of $10.5 million in the preceding year. Consequently, Ghana's international reserves increased to $1.6 billion at the end of 2005, equivalent to three months imports of goods and services.

Ghana's total external debt stood at $6.4 billion at the end of 2004, a fall of about 20 per cent from the level at the end of 2003. Multilateral creditors accounted for about 88.6 per cent of the total debt, while bilateral creditors (Paris Club and non-Paris Club) accounted for about 8.4 per cent, and private creditors accounted for 3 per cent. Ghana's total debt as a percentage of GDP has fallen sharply from a peak of 119 per cent in 2001 to 72.5 per cent in 2004 due to both debt relief and economic growth. The debt service ratio was estimated at about 8 per cent in 2004, down from 11.7 per cent in 2001.

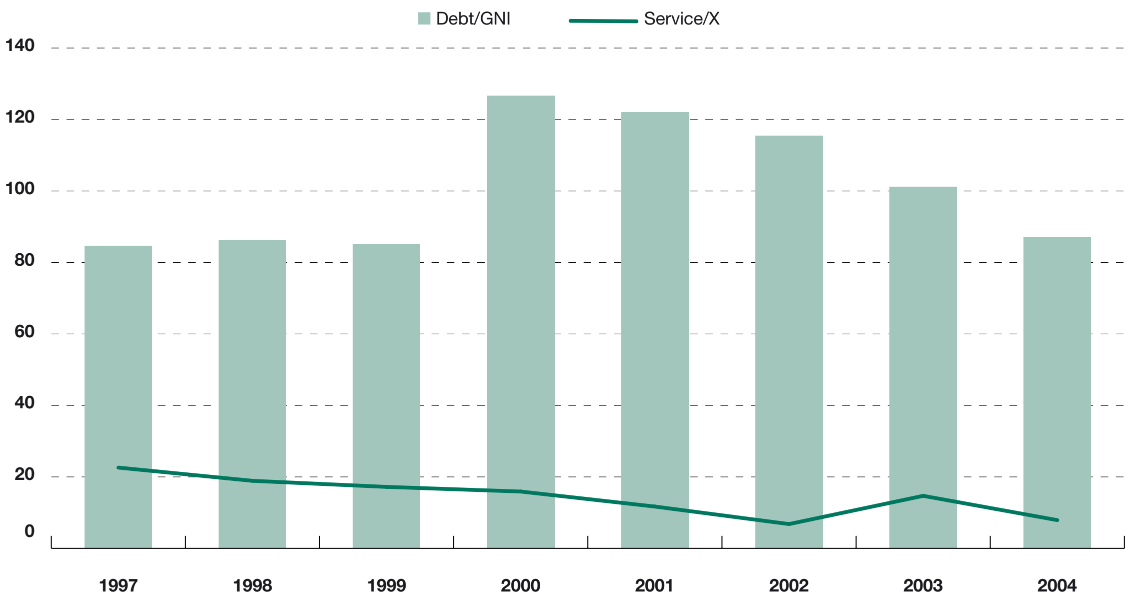
Ghana reached its completion point in the HIPC debt relief programme in July 2004. The country has now also completed the negotiations for debt relief with bilateral creditors required for its implementation and received a number of commitments of additional bilateral and multilateral debt cancellations. With the HIPC debt cancellations and the recent promise made at the Gleneagles G-8 summit to cancel Ghana's remaining debt, the government expects the country's outstanding foreign debt to fall further to $2.1 billion in 2010. As part of its debt management strategy, the government maintains a policy of contracting new loans with a minimum grant element of 35 per cent.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-17.9	-11.2	-10.3	-17.1	-20.6	-21.7	-21.3
Exports of goods (f.o.b.)	26.3	32.7	32.4	31.4	28.7	25.6	23.0
Imports of goods (f.o.b.)	-44.2	-43.9	-42.7	-48.5	-49.3	-47.3	-44.3
Services	-2.7	-1.1	-2.2	-4.4			
Factor income	-1.9	-2.8	-1.4	-1.9			
Current transfers	8.1	14.6	15.7	20.6			
Current account balance	**-14.4**	**-0.5**	**1.7**	**-2.7**			

Source: Authors' estimates (e) and projections (p) based on domestic authorities' data.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank.

Structural Issues

Ghana's overall strategy relies on the private sector as the engine of growth, driven by increasing domestic and foreign investment. To this end, the government's structural policies continue to focus on four main areas:

i) reforming the public sector; *ii)* improving the enabling environment for the private sector; *iii)* streamlining regulations and building capacity in the financial sector; and *iv)* improving the country's infrastructure.

In an effort to give further impetus to the public sector reform process, the government appointed a Minister of State responsible for public sector reforms in 2005. Subsequently, the government has outlined a comprehensive work programme for the reform of the public sector and submitted reform legislation to Parliament, the Sub-vented Agencies Reform Bill (SARB).

The government has approved a new national medium-term private sector strategy for 2005-09 and an Action Plan to facilitate private-sector development. It seeks to promote development by reducing the risks and cost of doing business in Ghana and thereby increasing both local and foreign investments.

Privatisation is another component of the government's strategy for boosting private investment. In 2005, the government moved towards granting a concession for the operation of the railroad system, described in more detail later. Privatisation of the urban water system is also moving forward in Ghana, despite some intense opposition.

Ghana appears poised to attract more foreign investment in natural resources, notably in gold, bauxite, cocoa and timber. The recent rise in international gold prices, which is expected to persist, has renewed the interest of international mining corporations in the country's gold. The Newmont Mining Corporation, the world's largest gold producer, has submitted a proposal to develop two new open pit deposits in the next few years, with an investment of nearly $2 billion. The government also bought into the Volta Aluminium Company (VALCO) in 2005. The government hopes that, as an equity partner, it can attract new private investors to help develop Ghana's vast bauxite deposits.

Financial sector reforms are another key component of the government's efforts to promote private sector development. Following the passage of the Banking Act in 2003, which strengthened the supervisory powers of the Bank of Ghana, in 2004 the government introduced the new Companies Code and set up commercial courts to facilitate business conflict resolution. Also in 2004, the government introduced new insurance regulations, measures to combat money laundering and agencies to disseminate credit information with the goal of enhancing the credibility of the financial system.

In 2005, the government focused on encouraging the financial sector to shift away from lending to the government in favour of commercial lending that will support economic development. To this end, the monetary authorities introduced several changes designed to reduce the costs of financial intermediation. First, the government significantly reduced bank reserve requirements. Second, the government introduced the Real Time Gross Settlement System (RTGS), which provides a standard platform for electronic payments at the retail level. Third, the government established a central security depository system that provides an electronic registry for holdings of government securities and equities and enables secondary market trading.

A new foreign exchange bill was also drafted in 2005 to be presented to parliament in early 2006. This bill is expected to clarify regulations on foreign exchange transactions and on convertibility of the currency.

Transport Infrastructure

Improving transport infrastructure remains a focal point of Ghana's development agenda. The government has three main goals in this regard. First, it hopes that expanded infrastructure will help to reduce poverty by improving access to markets and to other economic and social infrastructures, particularly in rural communities where about 60 per cent of the population lives. Second, it expects that improvements in transport infrastructure will help bridge the north-south development divide of the country. Third, the government hopes to promote economic integration in West Africa by constructing roads and rail links to its neighbours. In this regard, it has been proposed to expand Ghana's existing rail network from southern Ghana to northern Ghana as a first step in linking the country to Burkina Faso, Mali and Niger. Similar proposals to link Ghana to Côte d'Ivoire and Togo by rail are also under consideration.

Road transport accounts for about 98 per cent of freight moved in the country. The road network covers about 50 000 km. The country has two main ports at Tema and Takoradi. There is also a more limited port on Lake Volta handling inland water transport. An additional inland port at Boankra in the Ashanti region is under development. Accra's international airport serves a growing number of international airlines and four other regional airports. The railway system in Ghana consists of a triangular network, confined to the southern half of the country, connecting Accra, Kumasi and Sekondi-Takoradi with a total track length of about 1 300 km. Most of this existing infrastructure is in poor condition. As a result, the government has focused its efforts on rebuilding these existing networks.

Ghana's road system has been gradually improving. According to the government's assessment, the conditions of the country's roads improved from 23 per cent "good", 27 per cent "fair" and 50 per cent "poor" in 2001 to 40 per cent "good", 30 per cent "fair" and 30 per cent "poor" in 2004. The government aims to increase the fraction of roads rated "good" to 60 per cent by 2009. In order to reach this target, the government would need to refurbish about 5 000 km of roads per year, far above the current rate of 1 500 km per year. In addition, the civil conflict in Côte d'Ivoire has increased the importance of Ghana as a transit corridor for neighbouring land-locked countries, notably Burkina Faso and Mali. The increased traffic is likely to exacerbate wear and tear on Ghana's road system. In particular, many trucks carrying this surge of cargo have been violating the axle-load restrictions.

Rehabilitation work is also ongoing on the rail network, which is largely non-operational at present. With assistance from the World Bank, the government has initiated a programme to privatise the whole rail system, and in 2005 it invited bids to operate the lines under a concession arrangement. Kotoka International Airport serving Accra has been transformed into a modern airport, with the goal of making Ghana the business hub of the sub-region. The ports have also seen important upgrades. A new container terminal has been constructed at the Tema Port. Meanwhile, dredging and rehabilitation work continues at the Takoradi Port. These projects have improved services and shortened waiting times for shipment and clearing of goods.

Lack of financing remains a major constraint in upgrading transport infrastructure. Financing for the road network comes from three main sources: the government, road users and foreign donors. Until recently, the government has been the largest source of funding for road construction and maintenance. Since 1985, the government has used tolls to raise funds for road maintenance and, since 1996, it has expanded the revenue stream through fuel levies, vehicle registration fees and road-use fees. Concessional loans from development partners have recently covered over 70 per cent of road construction expenditures. Major contributors have included the World Bank, the African Development Bank, the International Development Association, the governments of Germany and Japan, the Saudi Fund for Development and the Arab Bank for Economic Development in Africa (BADEA). The government will face a critical financing gap when World Bank support for the road construction programme ends in 2006.

Financing in the rail and marine sectors has also traditionally come from a mixture of external, government and private sources, with the World Bank being the major external source of funds for rail rehabilitation. Since 2000, the government has also collaborated with multinational mining companies, especially in bauxite and manganese to maintain vulnerable sections of the railway network. Financing of infrastructure in the aviation sector has come predominantly through private loans. Ghana also collects fees from operating the regional air traffic control system, which covers all flights over Ghana, Togo and Benin for flights at altitudes above 23 000 ft.

Political and Social Context

With four elections since 1992 and a successful transfer of power from an incumbent administration through the ballot box in 2000, Ghana remains a rare example of a maturing democratic culture in West Africa, where many countries have experienced civil wars, *coups* or lasting incumbent rule. December 2004 saw another round of successful presidential and parliamentary elections. The elections returned the ruling New Patriotic Party (NPP) government to power.

Governance appears to have improved in 2004 with the enactment of the Freedom of Information Bill and the Whistle Blowers Bill, both aimed at enhancing individual freedoms and bolstering civil society. The government also demonstrated its commitment to democratic principles by volunteering to be the first country to face scrutiny under the NEPAD Peer Review Mechanism in May 2004. Nonetheless, substantial governance problems remain. While Transparency International rates Ghana as one of the least corrupt countries in Africa, Ghana's corruption perception rating has slipped back to levels seen when the NPP first came to office in 2000. In particular, increasing decentralisation in service delivery has helped to create additional opportunities for corruption.

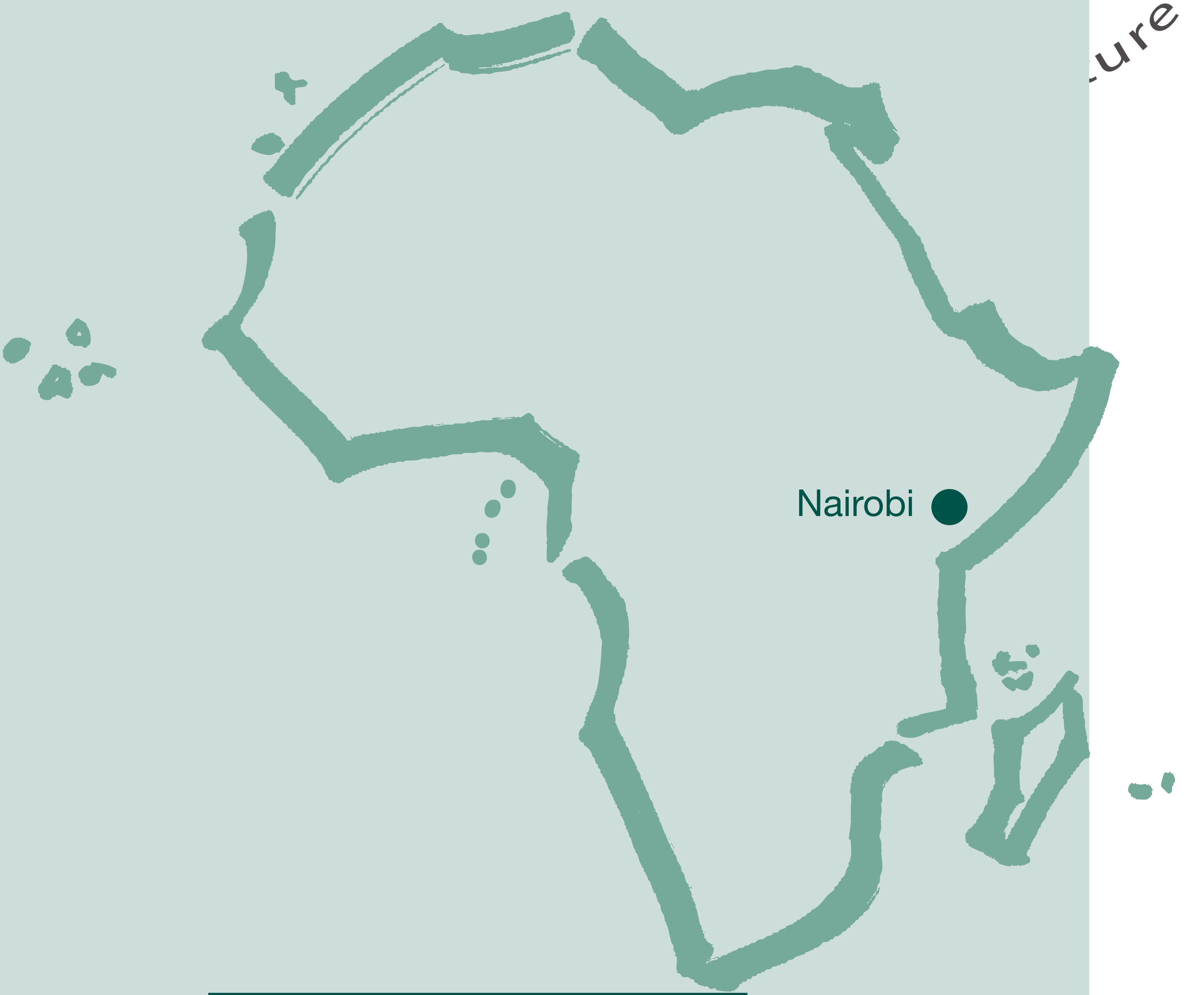
Ghana's consistent growth of about 5 per cent per annum for the last 15 years has resulted in one of the fastest rates of poverty reduction in Africa. Acute poverty – income of less than $1 a day – has fallen from about 51 per cent in the early 1990s to 35 per cent in 2004. Most poverty is still rural, although available figures indicate a slight increase in poverty in urban areas, from 8 to 9 per cent in 2004. Nutrition indicators for urban children have also deteriorated. Relentless urbanisation is shifting the pattern of poverty. Urban youth face the most difficulty as Ghana struggles to create formal sector jobs and provide services for the growing urban population. A disturbing dimension of the youth unemployment problem is the growing joblessness among university and other tertiary graduates, whose numbers exceed available vacancies, and who often appear to lack the skills that potential employers are seeking. Unemployment rates are also high among the graduates of the middle and junior secondary schools (JSS), also apparently because these schools fail to provide marketable skills.

The government is seeking to increase access to education, improve the quality of education, and raise gender parity in schools. In its Education Strategic Plan, the government is providing free and compulsory basic education, defined as primary school and Junior Secondary School (JSS). Also, in 2004 the government introduced the Capitation Grant Scheme that provides for expanded services. The scheme was first introduced to 53 deprived districts but, since September 2005, has been extended to all public primary and JSS schools in the country. These programmes contributed to raising the primary school enrolment ratio from 86.1 per cent in 2003/2004 to 87.5 per cent in 2004/2005. Gross enrolment at the JSS level, however, is less impressive. Moreover, students are performing poorly in basic subjects at the JSS Basic Education Certificate Examinations. In 2004, 41 per cent of all pupils failed in mathematics and science.

Government efforts to improve health care delivery appear to have improved both access to health care facilities and the quality of care. Government initiatives have particularly focused on expanding access to quality health care among Ghana's poor. In 2004, the Community Health Planning and Services programme was extended to four deprived regions. Further, in 2004 the government provided 15 new health centres and 3 district hospitals as part of its goal to have a hospital in each district of the country. In the coming years, the government's main vehicle for improving health care delivery will be the National Health Insurance Scheme which will increase funding for the health sector. The Scheme is financed using 2.5 per cent of workers' social security contributions. The Scheme was piloted in 45 districts in 2004. Also in 2004, the government began a subsidised anti-retroviral (ARV) treatment for those afflicted with HIV/AIDS.

Despite these advances, obstacles remain. The exodus of health personnel to developed countries continues to be a major problem. Available information indicated that Ghana lost over 30 per cent of its trained health personnel between 1993 and 2003. Additionally, progress in public health is severely limited by shortcomings in water infrastructure. In 2004, only half of the country's rural population and 60-70 per cent of city dwellers had access to safe water.

Kenya



key figures

- Land area, thousands of km^2 — 580
- Population, thousands (2005) — 34 256
- GDP per capita, $ PPP valuation (2005) — 1 144
- Life expectancy (2000-2005) — 47
- Illiteracy rate (2005) — 13.1

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/124030037050

Kenya

THE KENYAN ECONOMY HAS BEGUN to exhibit accelerating economic growth after reversing the poor performance of the last decade in 2003. Real GDP growth rose to 4.3 per cent in 2004 from 2.8 per cent in the preceding year in spite of a resurgence of drought that negatively affected the agricultural sector. Other sectors, especially transport and communications and manufacturing, have shown signs of renewed growth in response to new incentive structures put in place by the government. Similarly, tourism has continued to recover from the adverse effects of terrorism.

While fiscal reform is by no means complete, reforms in tax administration have begun to yield increasing domestic revenues. The government's expenditure management programme, however, continues to suffer from the huge public sector wage bill. The monetary authorities have achieved some success in reducing the growth of monetary aggregates. The impact of this on inflation has been minimal with the rate of inflation maintaining an upward trend as a result of high oil prices and drought-related shortages of some food staples. Interest rates have also risen in line with inflation as is to be expected. Nonetheless, the foreign exchange market has remained calm since the IMF gave a positive assessment of the economy in September 2004 which reduced the run on the Kenyan shilling. Kenya's external trade balance has deteriorated, in spite of a resurgence in exports, mainly as a result of the high oil price.

Stronger adherence to structural reforms is necessary if the current upswing based on improved economic management is to be sustained.

The government has combined its programme of economic recovery with steps to improve governance, yet strife within the government itself is affecting the country's democratic dispensation negatively. Kenya's structural reforms remain slow with several aspects of the reform process delayed by government inertia.

Economic performance continues to be hampered by the poor transport infrastructure which has deteriorated significantly in the last decade. The government's concerted effort at rehabilitating transport infrastructure will need to address the poor performance of the public enterprises that manage the networks

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)

Source: Domestic authorities and IMF data; estimates (e) and projections (p) based on authors' calculations.

and also mobilise adequate resources for maintenance, rehabilitation, construction and expansion of the infrastructure itself.

Recent Economic Developments

In 2004, in spite of the negative effects of a resurgence of drought, the high price of oil and a sharp deterioration in the terms of trade, real GDP growth rose to 4.3 per cent from 2.8 per cent in 2003. The economy has continued to improve with real GDP growth estimated at about 5 per cent in 2005, the highest level achieved in several years, mainly driven by private and public sector investment. The improving economic performance is also due in part to sound economic management. The main sectors contributing to the improving growth performance include tourism and transport and communications. The economy's performance is also underpinned by recovery in manufacturing, trade and building and construction.

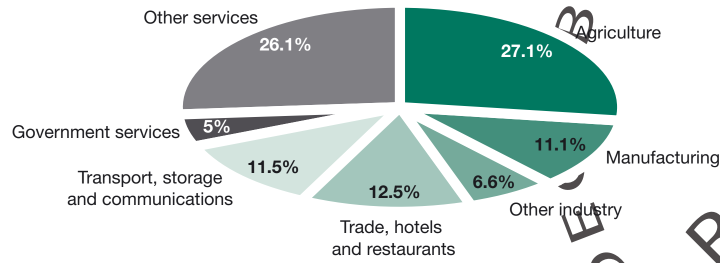
Agriculture remains a major sector in the Kenyan economy though its performance has been subdued in the last three years. In 2004, the agricultural sector contributed about 23.7 per cent of GDP. Growth of the sector decelerated from 2.7 per cent in 2003 to 1.4 per cent in 2004 owing largely to drought that affected maize, coffee and pyrethrum production. With near to normal rains in some parts of the country during 2005, the sector's performance improved as output growth reached an estimated 2.5 per cent, with output expanding mainly in wheat, tea, horticulture, sisal, sugar cane, cotton and rice. In 2005, the agricultural sector also benefited from tax concessions and other incentives introduced by the government during the year. These included increased budgetary allocations for credit facilities to farmers, through the Agricultural Finance Corporation, and targeted spending to boost cotton production. In addition, the government removed import duties for some categories of agricultural equipment. The production of tea benefited from the resolution of a trade dispute between Kenya and Pakistan, a major importer of Kenyan tea. Furthermore, the amendment of the Coffee Act to allow direct sales of coffee outside the auction system seems to have provided an incentive to boost coffee output. Nevertheless, in the medium to long term, the coffee sub-sector can only be restored to profitability by a reversal of the low prices due to the glut in international markets. Also, major restructuring, including putting an end to the persistent mismanagement of the coffee co-operatives, would provide an incentive to some farmers to return to coffee production.

The government has introduced tax incentives in the past three years in an effort to promote industrial growth. These incentives include waivers of import duties on some categories of capital goods and increasing the investment allowance from 60 per cent to 100 per cent. In 2004/2005, the government further abolished some 17 trading licences to simplify the licensing regime and reduce the cost of doing business. Similarly, the harmonisation of tax regimes across the East African Community has been expected to boost industrial growth in Kenya.

The manufacturing sector appears to be responding positively to these incentives as well as to rising domestic and external demand. In 2004/05, manufacturing output increased significantly by 4.1 per cent compared with 2.7 per cent in the preceding year. Major output expansions were recorded in cigarettes, beer, soda ash, processed milk and cement in response to increased domestic demand. Manufacturing output also gained from increased trade with Uganda, Tanzania and the Common Market for East and South African (COMESA) region, especially in agro-industrial products, plastics and engineering goods. The textile sub-sector also recorded significant expansion, especially within the Export Processing Zones, owing to increased exports to the United States under the African Growth and Opportunities Act (AGOA).

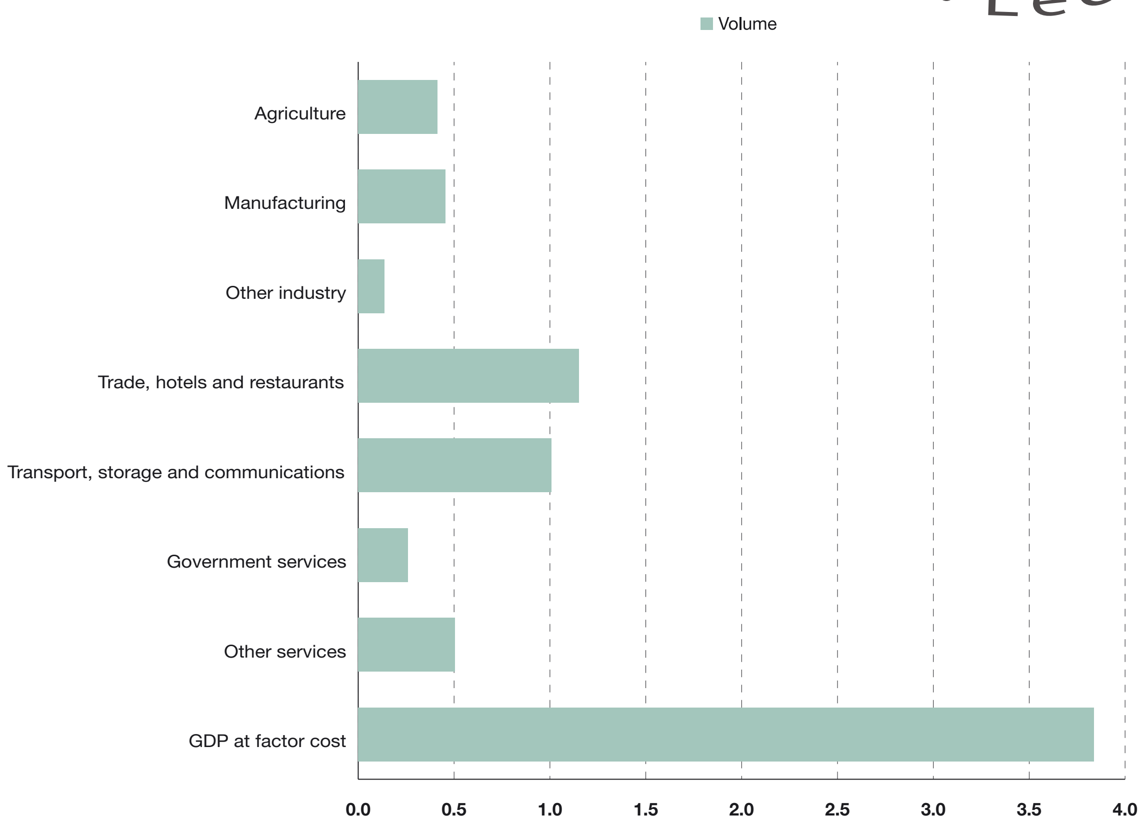
Manufacturing output is anticipated to expand further in response to increasing demand for Kenyan products from Sudan and Somalia following the recent end of civil war in both southern Sudan and Somalia. Kenyan manufacturers, however, continue to face major obstacles, particularly the high cost of power, the slow progress in rehabilitating critical transport infrastructure

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on domestic authorities data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on domestic authorities data.

such as roads and railways and the lengthy customs clearing procedures at the Port of Mombasa. On the one hand, until the ongoing Sondu Miriu Hydro-power plant and the Olkaria Geothermal extension projects are completed it is rather difficult to anticipate any increase in electricity generation sufficient to keep pace with the growing energy demand. On the other hand, the recent granting of concessions to private South African operators to manage the Kenya and Uganda Railways is likely to improve the pace of cargo handling especially from the Port of Mombasa.

The services sector continues to be the mainstay of the Kenyan economy accounting for 60 per cent of total GDP in 2004 with a similar contribution estimated in 2005. Tourism, the main service industry, exhibited rapid growth in 2004 and 2005 as it continues to recover from the adverse effects of terrorism and tribal clashes in tourist areas. In 2004, the government strengthened the Tourist Police Unit to improve security in tourist areas. Also, following the reversal of negative travel advisories by the United States and the United Kingdom, tourist numbers from these countries rose significantly. Furthermore, Kenya appears to be attracting increasing numbers of tourists from non-traditional markets such as China, Japan and India following the government's campaign in those countries. In addition, the government's effort in broadening tourism offerings, by opening up new circuits in the western and northern parts of the country to complement the traditional beach and wildlife areas, appeared to have had some success. Tourist arrivals rose by nearly 19 per cent in 2004 and are estimated to have increased by 30 per cent in 2005. Tourism receipts increased by 51.9 per cent in 2004, implying increased spending in real terms per tourist given the relative low rate of inflation in the country.

The transport and communications sector has remained one of the fastest growing sectors of the Kenyan economy since 2000. In 2004, the sector contributed about 10.3 per cent to GDP exhibiting a

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**15.1**	**16.3**	**17.4**	**18.2**	**19.3**	**20.6**	**21.0**
Public	5.4	4.3	4.2	4.0	4.5	4.8	4.9
Private	9.7	12.0	13.2	14.2	14.8	15.8	16.0
Consumption	**91.0**	**90.8**	**89.6**	**90.9**	**87.8**	**85.8**	**84.2**
Public	15.5	16.7	17.8	17.0	16.4	15.9	15.1
Private	75.5	74.1	71.8	74.0	71.4	69.9	69.1
External sector	**-6.2**	**-7.1**	**-7.0**	**-9.1**	**-7.1**	**-6.4**	**-5.2**
Exports	22.7	24.3	24.6	28.0	28.4	27.4	26.0
Imports	-28.8	-31.4	-31.6	-37.1	-35.5	-33.9	-31.2

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

growth rate of 8 per cent. A similar performance is expected in 2005. Expansion in the sector has followed extensive investment in telecommunications, particularly in mobile phone services, internet services provision and radio and television operations. These have generated many new support businesses, including public mobile pay phones commonly referred to as *simu ya jamii,* and increased numbers of subscribers, in addition to the enlarged geographical coverage. Growth in the telecommunications sector is exemplified by the more than doubling of mobile phone subscribers from about 2.2 million in 2004 to 4.6 million in 2005.

In sharp contrast, poor performance continues to persist in fixed-line telephone services with declining connections leading to tele-density (telephones per 100 persons) falling from 1 in 2003 to 0.9 in 2004. The decline partly reflected inefficiencies of Telkom Kenya, the monopoly provider of fixed-line services. It is noteworthy, nonetheless, that Telkom Kenya upgraded its services with the introduction of CDMA wireless service in parts of the country to improve efficiency in 2005. The transport sub-sector gained from new investments in major projects including the Northern Corridor highway and the government's Roads 2000 programme which was implemented in 34 districts in 2004 and 2005. Kenya's new road transport rules and regulations introduced in 2004 also encouraged the private passenger transport business leading to a substantial increase in newly registered private passenger vehicles in 2004 and 2005. Moreover, the granting of concessions to a private South African consortium to manage the Kenya and Uganda railways led to new investment in railways. These developments in various economic sectors also reflected, and sometimes contributed to, an increase in the growth rate of private consumption in both 2004 and 2005. A similar pattern was observed for private investment. A reversal of the fiscal stance from expansionary to restrictive exerted a counter-cycle influence in 2004 but the fiscal position became expansionary once again in 2005. Meanwhile the balance of payments on goods and non-factor services expressed in constant prices worsened in 2004, also dampening growth, but improved somewhat in 2005 reinforcing growth in that year.

Macroeconomic Policies

In 2004, the government revised the macro-economic framework originally envisaged in the Economic Recovery Strategy (ERS). The revision was necessitated by declining external development assistance, deterioration in the terms of trade and capacity constraints. The revised framework emphasised consolidating and strengthening macroeconomic performance through greater emphasis on promoting national savings to increase national investments.

Fiscal Policy

The government's medium-term fiscal strategy is built around three pillars: *i)* a revenue policy framework that aims at maintaining domestic revenue at above 21 per cent of GDP; *ii)* an expenditure strategy that gradually reduces the level of expenditure to GDP, while allowing for expansion in poverty reduction programmes and capital expenditure; and, *iii)* reducing the budget deficit to less than 3 per cent of GDP. The authorities have been relying on increasing revenue collection by improving the quality of tax administration rather than raising tax rates in order to attain the revenue objective.

The government faces several challenges in implementing its fiscal strategy. These challenges include: *i)* reducing the large variations between budgeted allocations and actual expenditures; *ii)* enhancing the low absorption capacity in the development portion of the budget and reducing the volume of recurrent expenditures in the development budget; *iii)* reducing the high civil service wage bill which amounts to more than 8 per cent of GDP; *iv)* reducing the level of transfers to public enterprises; *v)* providing adequate financial resources for priority programmes; and *vi)* reducing the high levels of expenditure arrears and numbers of stalled projects.

Nonetheless, the government has made some progress towards fiscal objectives. In response to improvements carried out in tax administration, including computerising a number of operations of the Kenya Revenue Authority (KRA) in 2004/05, the declining trend of Kenya's domestic revenue to GDP ratio has been reversed. Also, in 2004/05, the authorities integrated the Income Tax and VAT departments into an integrated Domestic Tax Department and simplified customs processing procedures for imports and exports. Further administrative reform at the KRA, curtailing tax exemptions, and introducing Electronic Tax Registers (ETRs) are being carried out in 2005/06.

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

	1996/07	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Total revenue and grants	**21.3**	**19.4**	**20.3**	**22.2**	**21.9**	**21.8**	**21.7**
Tax revenue	17.7	15.8	16.4	16.7	16.0	15.7	15.6
Grants	0.8	1.1	1.5	1.0	1.3	1.4	1.4
Total expenditure and net lending	**23.6**	**21.5**	**22.7**	**22.0**	**23.7**	**23.1**	**22.6**
Current expenditure	19.5	19.0	19.6	19.3	20.3	19.4	18.7
Excluding interest	*14.7*	*16.1*	*16.3*	*17.0*	*18.0*	*17.6*	*17.3*
Wages and salaries	3.6	8.0	8.2	8.4	8.5	8.1	7.7
Interest on public debt	4.8	2.9	3.3	2.3	2.2	1.9	1.5
Capital expenditure	3.7	2.5	3.1	2.3	3.3	3.6	3.8
Primary balance	**2.5**	**0.7**	**0.9**	**2.6**	**0.5**	**0.5**	**0.6**
Overall balance	**-2.3**	**-2.1**	**-2.4**	**0.3**	**-1.8**	**-1.3**	**-0.9**

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

As a result of the reforms, the domestic revenue to GDP ratio rose from 20.3 per cent in 2002/03 to 21.9 per cent in 2004/05. At the same time spending was restrained to less than the amounts budgeted in the face of delayed disbursement of budgetary support pledged by donors. This tightened fiscal stance in 2004/05 enabled net repayment of domestic debt to the banking sector equal to 0.3 per cent of GDP instead of a programmed domestic borrowing equal to 2.3 per cent of GDP.

Monetary Policy

Kenya's monetary policy aims at maintaining core inflation below 5 per cent, although this has been difficult to attain. The inflation objective has been pursued by controlling the amount of reserve money, with broad money supply as the intermediate target. In 2005, the monetary authorities were successful in reducing the growth of broad money supply (M3X) from 12.9 per cent in the preceding year to 11.3 per cent. Much of the expansion in the money supply in 2005 was owing to a strong expansion of credit to the private sector, in response to the increase in domestic economic activity.

Inflation has continued to exhibit a rising trend since 2003, when the rate of inflation was 2 per cent, and has remained substantially above the government's target. In 2005, in spite of the slowdown in the rate of expansion of the monetary supply, the average annual rate of inflation rose to an estimated 14 per cent from 11.1 per cent in 2004. The government's difficulty in bringing down inflation is a result of the increase in oil prices and drought-related shortages of food commodities. The government has allowed the prices of oil and food items to adjust fully to market prices with appropriate safety nets to protect the poor.

Interest rates in Kenya have risen in line with inflation. The rate on the benchmark 91-day Treasury bills, which had declined to below 1 per cent in September 2003, rose to about 8 per cent in December 2004 before stabilising at 8.5 per cent in June 2005. The rapid increase in the 91-day Treasury bill rate reflects the expected domestic borrowing required to finance the government's budget in 2005/06.

Kenya maintains a flexible exchange-rate system to complement its trade reforms and to ensure appropriate economic incentives for producers. In nominal terms, the shilling depreciated against the US dollar following fears of increased demand for foreign currency to cover the rising import bill, owing to the increased oil price and food imports to mitigate the supply shortage occasioned by drought and hence speculation that delayed donor inflows for budgetary support would put pressure on the exchange rate. This obliged the central bank to intervene periodically to smooth out volatility. Speculation on the Kenyan shilling eased from September 2004 following a positive assessment of the economy by the IMF. In 2005, the shilling appreciated by 4.9 per cent against the US dollar as a result of strong export receipts and capital inflows in response to the relatively high domestic interest rates.

External Position

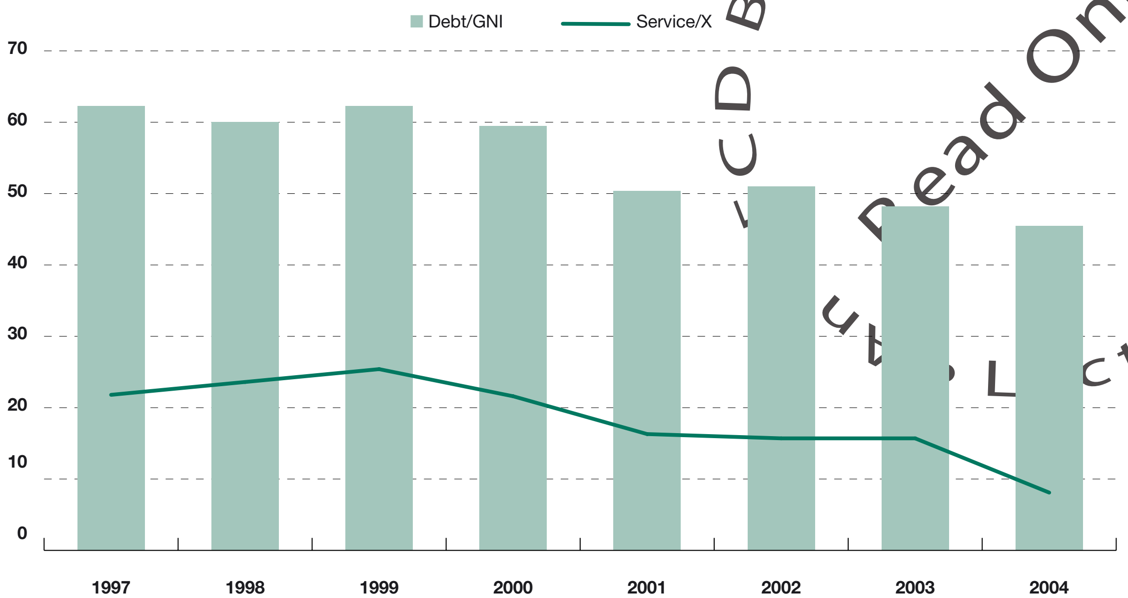
The implementation of the Common External Tariff (CET) binding the maximum tariff rates of

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

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	-6.8	-7.6	-7.6	-9.9	-10.5	-9.8	-8.4
Exports of goods (f.o.b.)	15.7	16.4	16.1	16.9	15.7	15.3	14.5
Imports of goods (f.o.b.)	-22.5	-23.9	-23.7	-26.8	-26.3	-25.1	-22.9
Services	0.7	2.5	3.2	4.2			
Factor income	-1.3	-1.1	-0.6	-0.7			
Current transfers	3.9	4.8	5.4	4.0			
Current account balance	**-3.4**	**-1.3**	**0.5**	**-2.3**			

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

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

Kenya and its partners in the East African Community (EAC) began in January 2005. Under the CET, the maximum tariff rate of Kenya was lowered from 35 per cent to 25 per cent. The EAC customs union is designed to facilitate increased trade between the member states, while protecting their individual infant industries and attracting FDI.

The current account balance of Kenya has worsened mainly owing to deterioration in the trade account. In 2004, the current account showed a deficit equivalent to 2.3 per cent of GDP thus reversing the small surplus of 0.5 per cent of GDP recorded in 2003. The deficit in 2004 followed deterioration in the trade account as a sharper rise in imports of over 29 per cent outweighed an increase in exports of 17.3 per cent. The rise in imports was owed mainly to increased domestic activity and the higher price of oil. A similar situation was observed in 2005 as exports rose significantly by about 25.4 per cent but was outweighed by a sharper increase in imports of about 40.4 per cent. Kenya's exports in 2005 gained from the resumption of peace in the horn of Africa as well as robust growth in Kenya's COMESA trading partners enhanced export performance. Imports continued to rise in 2005 as a result of the higher oil bill and larger intermediate goods imports in response to increased economic activity.

The outstanding external debt of Kenya stood at $5.1 billion at end-2004. This was equivalent to 31.6 per cent of GDP. The debt service ratio declined from 15.7 per cent in 2003 to 8.1 per cent in 2004 as a result of debt rescheduling and improvements in export performance. In January 2004, the Paris Club of Creditors rescheduled $350 million of arrears and scheduled interest and principal falling due between January 2004 and December 2006. Multilateral organisations continued to be the leading creditors, accounting for 63.4 per cent of the total debt, while bilateral creditors accounted for 31.3 per cent. The remaining 5.3 per cent of the total debt was owed to commercial creditors. On the one hand, Japan remained the major creditor of Kenya amongst the bilateral donors accounting for 40.9 per cent of the total bilateral debt. On the other hand, IDA /IFAD were the leading creditors among the multilateral creditors, accounting for 83.4 per cent.

To ensure a sustainable external debt position, Kenya's debt management strategy focuses on external borrowing on concessional terms, lengthening the term structure and reducing servicing costs, currency diversification to mitigate exchange rate-risk, and refinancing to replace expensive debts with less expensive ones.

Structural Issues

Recent Developments

Kenya places emphasis on the private sector for creating employment and wealth and reducing the spread of poverty. Towards this end, in 2004 the government began a number of initiatives aimed at supporting the private sector. These include the formulation of a Private Sector Development Strategy (PSDS) to provide the general direction and a medium- to long-term road map for the government to support private sector development. Moreover, an Investment Climate Action Plan (ICAP) was put in place to co-ordinate reform by government ministries and public agencies to provide immediate benefits to private enterprises. The ICAP focuses on a number of priority areas organised into clusters including: controlling rampant and escalating insecurity; addressing the poor state of roads; fast-tracking construction approvals; removing inefficient, unnecessary, unfriendly and cumbersome licensing procedures; improving business registration; improving land administration; updating the Company Law; and improving customs and tax administration.

Nonetheless, many of the government's own actions seem to run counter to its declared intention of fostering private sector development. For example, the failure by parliament to pass the Privatisation Bill since 2003 makes the government's intentions unclear. The government acknowledges publicly that poor performance of key enterprises earmarked for privatisation continue to undermine Kenya's competitiveness. The government appears to favour public-private partnerships and performance contracts in the reform of these enterprises. This approach, however, still requires the enactment of the Privatisation Bill that remains stalled largely as a result of government inertia.

The government continues to make limited progress with other aspects of its public sector reforms that focus on improving public financial and human resource management. The authorities have introduced a Results Based Management (RBM) System in the public service and in 2005 performance contracts were signed with some heads of parastatal organisations and top government officers on a pilot basis. Furthermore, the government has set a target for the civil service wage bill of 7.2 per cent of GDP by 2005. However, a court case by the Union of Kenya Civil Servants has slowed down the implementation of the Voluntary Early Retirement Scheme and hence the wage bill remains more than 8 per cent of GDP. Other reforms include the Public Officers Ethics bill and measures to strengthen the Anti-corruption Crusade.

The government has been pursuing financial sector reform to strengthen the financial system and to increase the predictability of the business environment in the financial sector. Towards this end, the government has prepared a comprehensive financial sector strategy aimed at improving efficiency in financial intermediation. As part of the strategy, the government expects to restructure and privatise state-owned banks. In 2005, a Bank Restructuring and Privatization Unit was set up in the Ministry of Finance to develop and implement the reforms in state-owned banks. Furthermore, efforts were made to strengthen the capacity to detect and prevent money laundering and financing of terrorist activities, through the drafting of the Anti-Money Laundering (AML) and Proceeds of Crime Bill. Other measures pursued include amendments to the Banking Act and the Central Bank Act to transfer all supervisory and regulatory roles from the Ministry of Finance to the central bank. Additionally, the Capital Markets Authority (CMA) that regulates the stocks and equities market was reinforced in 2005 to strengthen investor confidence.

Transport Infrastructure

Kenya has experienced rapid growth in the transport industry since independence. This has proved to be essential not only for the domestic economy but also to serve the landlocked countries in Eastern Africa.

However, the transport infrastructure network has deteriorated significantly in the past decade owing in part to the suspension of donor funding to Kenya for this purpose. The network has also suffered from a long and cumbersome procurement process for construction, maintenance and rehabilitation of public infrastructure coupled with poor and compromised quality of work as a result of corruption. The quality and efficiency of the transport network have fallen leading to less predictable service delivery. Lengthy delays, breakdown of transport equipment, and closure of sections of the transport networks along the major transport corridors occur on a daily basis.

In recognition of the importance it attaches to addressing these problems, the government has identified transport infrastructure as one of the key pillars in its ERS and has developed an Integrated National Transport Policy Programme that seeks to develop the transport sector's infrastructure in a coherent and integrated manner. However, daunting challenges persist in the attempt to repair, modernise and expand the Kenyan transport infrastructure. Among the major challenges are how to turn around the poor economic performance of the public enterprises managing transport infrastructure facilities, and how to mobilise adequate resources for maintenance, rehabilitation, construction and expansion of the infrastructure itself.

The responsibility for road infrastructure is dispersed among different government ministries, departments and levels of government, with the Ministry of Roads and Public Works responsible for the classified roads, and the Ministry of Local Government, through various local authorities, responsible for urban and rural roads. The existing institutional framework has many players who are not linked optimally.

Kenya's road network has greatly deteriorated in the last decade. In addition to poor and deteriorating road conditions in the urban centres, there is a lack of other road infrastructure facilities such as footpaths for pedestrians to make walking safer, separate lanes for cyclists or non-motorised transport modes (NMTs), or flyovers and bypasses to ease traffic congestion. Although local authorities are expected to be responsible for the provision and maintenance of urban infrastructure, including roads, nearly all of them have been experiencing critical financial constraints, poor resource management and lack of quality personnel in specialised areas. The government is aiming to reduce the length of road network classified in bad condition by 23 per cent by 2007. The projected implementation activities include construction and rehabilitation of key road links and networks under the Roads 2000 Programme; rehabilitation of rural roads and reconstruction of 150 km of trunk roads per year, and concessioning of up to 1 200 km of trunk roads by 2007.

Current road infrastructure financing, which is a responsibility of the central government, is inadequate, arbitrarily allocated and does not allow for innovative ways for funding infrastructure development and maintenance. Furthermore, financing is fragmented between different ministries, departments and levels of government, which results in spreading the resources too thinly. Significant external funding for most of the proposed activities is made available from various donors and development partners. The government's contribution is made available through the Fuel Levy Fund that accounts for 24 per cent of the total budget and a share of the newly created Constituency Development Fund (CDF), with an estimated 16 per cent share of the total budget.

Rail transport is the second most important mode of transport in Kenya, after road transport, for both freight and passenger services. The railway system is under the parastatal management of Kenya Railways (KR) and comprises 2 765 km of track. In addition to provision of freight services within the country, KR also handles transit traffic to and from the landlocked countries in the East African region. KR has over time experienced financial, technical and operational problems as a result of poor corporate governance and inadequate investment. As a result the rail network continues to face operational problems because of rolling stock capacity constraints caused by inadequate funding.

The legal and institutional environment in which KR operates is not conducive to proper corporate governance. The KR Act, which governs the operations of the railways, limits the participation of other players in the railway transport business. The Act is silent on the participation of the private sector in the operations and development of railways. Moreover, the institutional management of the railway sub-sector combines the aspects of regulation and operation under one institution. In order for the government to enable the railway system to become competitive, it was necessary to review the KR Act. As a result of changes to the Act and the granting of a concession to a South African Consortium to manage the Kenya and Uganda Railways, the railway network may be expected to improve.

Kenya has a relatively well-developed air transport system. Many local, foreign and private firms as well as individuals operate services within the country. The Kenya Airports Authority (KAA), a public authority, oversees the management and administration of the airport infrastructure. The Meteorological Department and the Kenya Civil Aviation Authority (KCAA) provide essential support services to the aviation industry.

The current systems of Kenya's air transport infrastructure have a number of weaknesses, according to the Kenya Airspace Master Plan. These include ground communications that are persistently unsatisfactory by reason of the provider's (Telkom Kenya) technical problems; absence of essential equipment; the ageing and need for replacement of some of the technical equipment; and the lack of a Safety and Quality Management System (SQMS) among others. In order to handle growth in its international and domestic air traffic and maintain its status as an important hub in the region (East and Central Africa and the Indian Ocean), Kenya faces several challenges. These include sustaining sufficient budgetary allocations for rehabilitation and maintenance of airport facilities; reaching international safety and security standards; and improving and strengthening airport operational and management capability. To foster private sector participation (PSP) in the provision of infrastructure and services, the government has secured grants from the Public Private Infrastructure Advisory Facility and engaged a consultant to explore the possibilities and develop a PSP strategy.

The existing financing framework for airport infrastructure development and maintenance in Kenya is generally *ad hoc*. Financing is mostly by the government together with development partners. Currently, the ongoing airport modernisation is funded by the World Bank under the Northern Corridor Transport Improvement Project" (NCTIP).

Marine transport in Kenya consists of port facilities in Mombasa, shipping and inland water transport. The inland container depots at Nairobi, Kisumu and Eldoret, which are also managed by the Kenya Ports Authority (KPA), fall under this mode of transport. The recently established Kenya Maritime Authority oversees maritime activities in the country. Also, Kenya has inland water transport, but the potential for both rivers and lakes transport has not been fully exploited. Only Lake Victoria has significant transport activities.

Political and Social Context

Kenya enjoys considerable participatory democracy and political pluralism amid continuing differences with the ruling NARC government. The government conducted a historical constitutional referendum in November 2005 which it lost. The constitution would have settled several controversial issues in the country, including electoral reform, the nature of presidential powers and the country's regional administration.

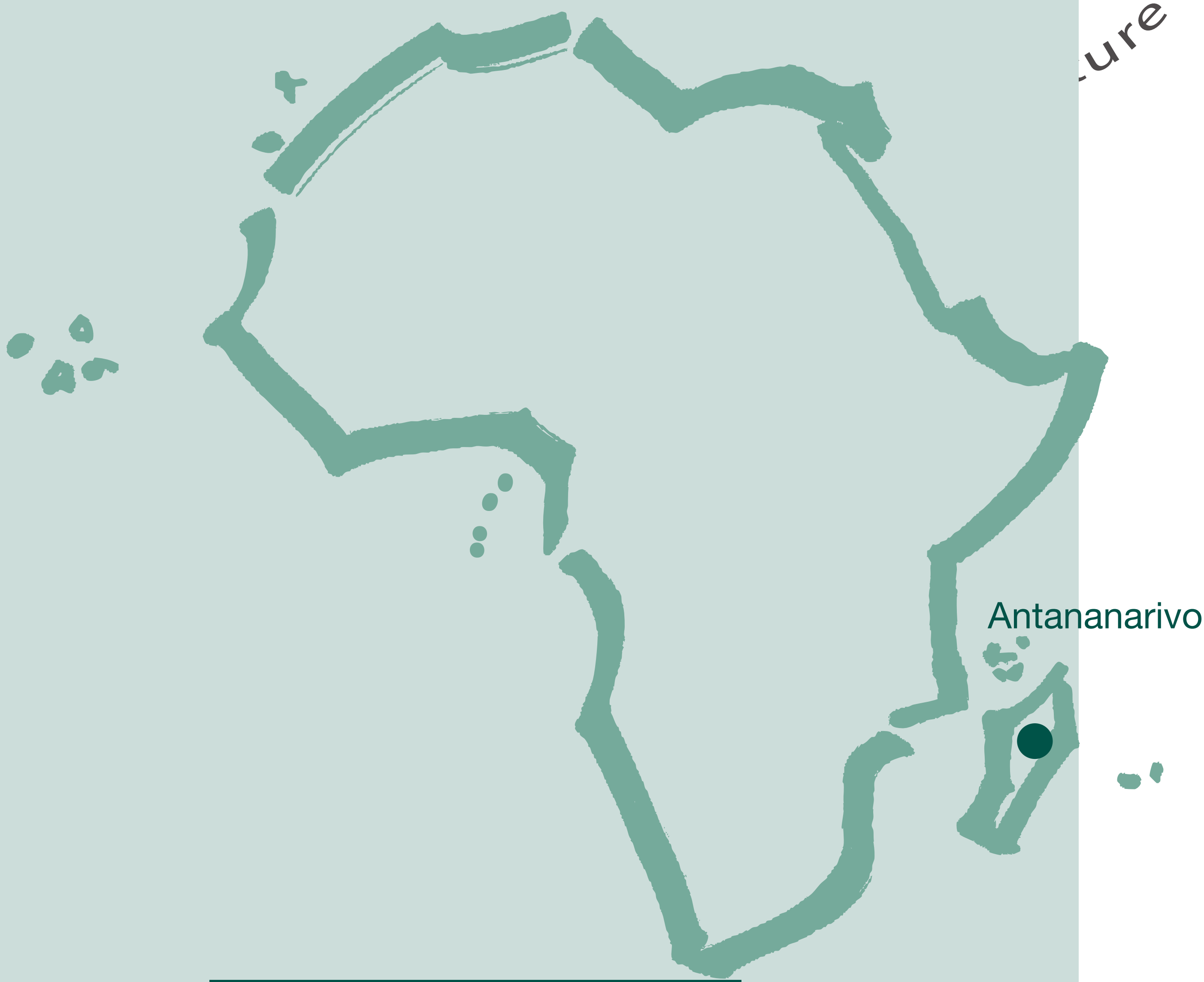
The government has maintained a strong commitment to the rule of law, peace and security and has continued to implement measures to reduce opportunities for corruption, deter corrupt practices and strengthen governance institutions as well as to enforce fully the anti-corruption laws and regulations. The government has prepared an Action Plan for a comprehensive anti-corruption strategy. The measures being implemented under this Governance Action Plan include enhancing the effectiveness of anti-corruption investigative agencies; building adequate prosecution capacity to handle corruption-related cases; making wealth declaration public in order to discourage abuse of public offices; and continuing to vigorously investigate economic crimes and to recover illegally acquired assets.

Additional reforms are being implemented to ensure that law and order is maintained. These reforms include improving capacity for crime prevention, investigation and prosecution; rolling out community policing to other urban centres outside Nairobi; and building housing facilities to improve the living conditions of police officers.

The government is taking some specific measures to reduce poverty in Kenya. These include the establishment of the Constituency Development Fund (CDF), the Local Authority Transfer Fund (LATF) and the Constituency Bursary Fund. Under the parliamentary act that established the CDF, it is required that 2.5 per cent of ordinary revenue generated by the government be transferred to this fund for disbursement to various poverty-reducing projects across the country. There is however concern that the establishment of many funds controlled by members of parliament may not achieve the desired target as the funds may not be subjected to the same control, reporting and accountability procedures as required for other normal budget outlays.

Progress in healthcare provision remains modest in Kenya. However, significant improvement is evident in the fight against HIV/AIDS. The HIV/AIDS prevalence rate has been reduced by 50 per cent in the last four years from 14 per cent to 7 per cent. The government has set new targets to maintain this momentum. According to the HIV/AIDS Strategic Plan 2005-2010, the National Aids Control Council (NACC) seeks to reduce the incidence of new infections, increase access to life-prolonging drugs and reduce the impact of AIDS on families. The new Plan also seeks to continue improving the quality of life for the country's 1.4 million infected people through access to anti-retroviral drugs and better medical care. The government has reduced the cost of anti-retroviral drugs to patients through a combination of factors, including enactment of the Industrial Property Act, which requires industrial establishments to make a financial contribution to government for the anti-retroviral drug programme. The government's education policy continues to focus on free primary school education. Since 2003, over 1 million children have joined the programme. The government has secured the future of these children in school by increasing budgetary expenditure on education. The government now allocates about 28 per cent of total government expenditures to the education sector. In 2004/05, the government focused attention on specific priority areas, such as ensuring equitable access to education by targeting disadvantaged areas, particularly those classified as Arid and Semi-Arid Land; vulnerable groups, such as street children and girls; reviewing implementation of the bursary scheme to ensure that only deserving children from poor households benefit; and improving quality and internal efficiency through teacher training and redeployment.

Madagascar

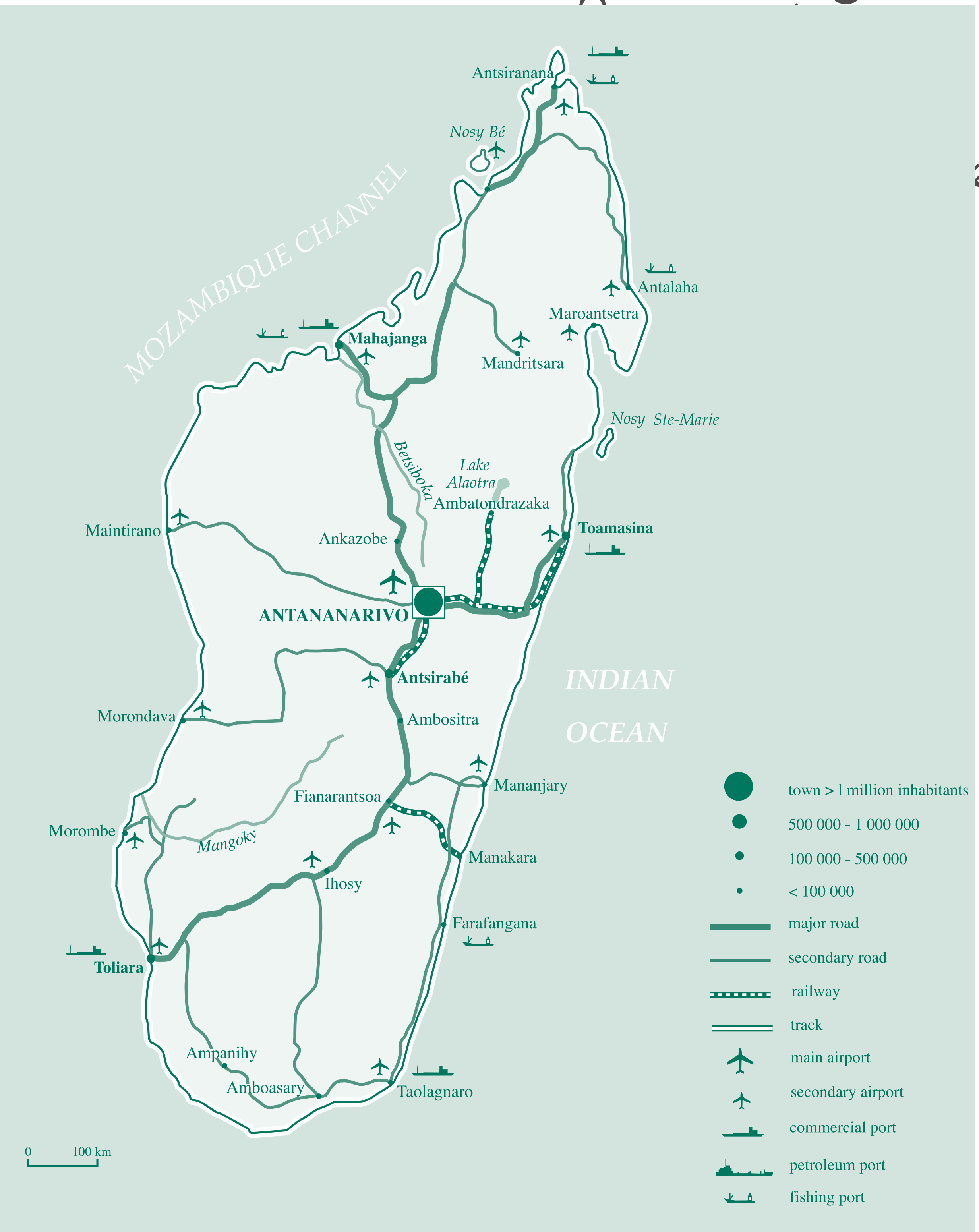


key figures

• Land area, thousands of km²	587
• Population, thousands (2005)	18 606
• GDP per capita, $ PPP valuation (2005)	886
• Life expectancy (2000-2005)	55.3
• Illiteracy rate (2005)	29.5

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/843180287803

Madagascar

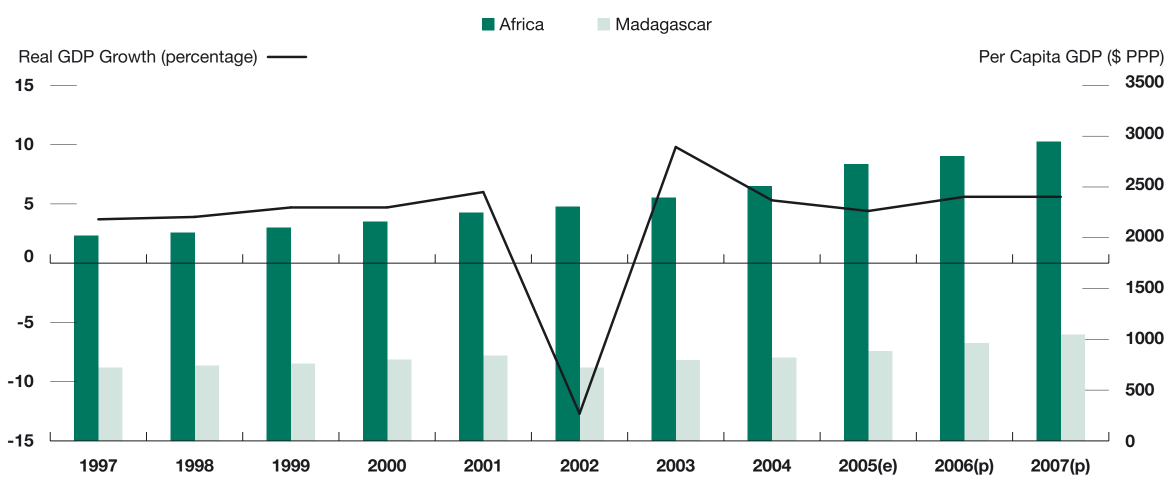


MADAGASCAR'S PER CAPITA GDP was average for a developing country in the late 1970s, but three decades of steady economic decline since then have reduced it to about half that. The country's stock of human resources is now quite small. Average annual GDP growth has been only 0.5 per cent during that period, while the population has increased by an average of 2.8 per cent a year. Today's Madagascans are much poorer than their parents and grandparents were. This decline in living standards is mainly due to persistently bad government policies that have held back economic activity. The country experimented for many years with socialism, which substantially changed resource allocation and lessened the role of the private sector in creating value added.

Madagascar has also had many political crises since independence. The most recent followed the presidential elections of December 2001: the result was contested, plunging the country into a major political crisis that cut it in two and set off an economic slump from which it is still struggling to emerge. The current government, which took office at the end of the crisis in 2002, is open to the private sector and has continued and accelerated the reforms and state sector downsizing begun in the late 1990s. The economy is still shaky, however, because of weather problems, external shocks to the country's major export markets and slow bureaucratic procedures that obstruct the private sector. Economic results in 2005 were not up to expectations, mainly because of a crisis in the state electricity firm Jirama, which had to make frequent power cuts because it could not pay its fuel bills; low prices for exports of vanilla; and the first effects on the textile industry of the end of the Multifibre Arrangement.

Madagascar is recovering from the 2002 political turmoil but facing low vanilla prices.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and National Statistics Institute data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

The economy grew 5.3 per cent in 2004 and is expected to expand by 4.4 per cent in 2005, significantly short of the 6 per cent at first predicted, due to a combination of structural factors and changes in economic conditions. The latter include high world oil prices which slowed economic activity and badly hit the national electricity company, forcing it to make power cuts from June 2005 until the end of the year. Some raw materials exports, such as vanilla, suffered from a collapse in world prices. Textile exports also now face competition from Asia. Lastly, the government was forced to cut spending to reduce the budget deficit. At the structural level, the economy is still hampered by bureaucratic delays and weak infrastructure. All of these factors have held back economic activity, and growth is expected to be 5.6 per cent in 2006 and 2007.

The tertiary sector remained the pillar of the economy in 2004, accounting for 55.2 per cent of GDP, 0.3 of a percentage point less than in 2003, with the private tertiary sector alone accounting for 48.5 per cent of GDP, 0.6 of a percentage point more than the previous year.

The primary sector continued its good performance in 2004 with growth of 3.1 per cent (1.3 per cent in 2003). Agriculture led the way (up 3.5 per cent) thanks to government efforts to boost the sector by abolishing tax on fertilisers and farm machinery. Fisheries and aquaculture saw higher growth (3.5 per cent, after 2.6 per cent in 2003) and contributed 7.2 per cent to GDP, though prospects for 2005 were poor due to a 78 per cent year-on-year slump in shrimp exports in the first half of 2005.

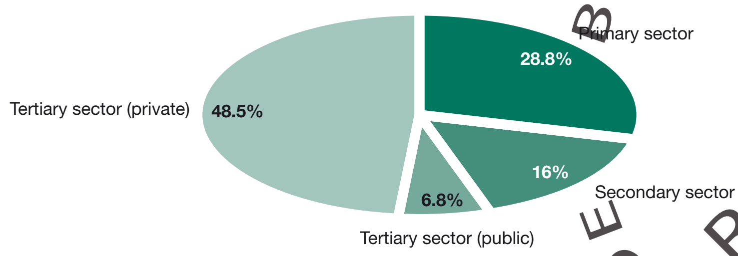
The secondary sector performed very well in 2004 with a 6.6 per cent growth rate. Processing industries were buoyed by a 25 per cent expansion of firms in the free zone. Construction posted the highest growth, at 29 per cent, about the same as the previous year, partly due to recovery from the political disturbances of 2002 when construction shrank by 15 per cent.

The economy has always depended on a few raw materials and their world price. Vanilla is still a leading export. Tropical cyclones halved vanilla output in 2003, but a record 6 000 tonnes was produced in 2004. Volume exports doubled in the first half of 2005 year-on-year, but earnings fell 85 per cent as prices collapsed from 126.3 SDRs (special drawing rights) per kilo in 2004 to about 22.2 in 2005. This drop was particularly troubling because agricultural exports still account for a large share of the country's foreign exchange earnings (vanilla and coffee provided 27 per cent of export revenue in 2001). If the shortfall in vanilla earnings continues throughout 2005, Madagascar will sustain substantial losses of foreign exchange, particularly since income from other agricultural exports such as cloves has steadily fallen since the mid-1980s. There were great hopes for export of lychees, but the weather has reduced harvests, which stagnated in 2003 and 2004 at around 200 000 tonnes, and export earnings have remained poor.

A major source of poverty is the shortage of rice, the staple food of Madagascans. Fluctuations in local production have a very strong impact on the population. The political events of 2002 and tropical cyclones in 2003 badly hit rice harvests; the 2.6 million tonnes produced in 2002 and 2.8 million in 2003 were well below the 3.1 million tonnes needed to satisfy domestic consumption needs. Paddy rice output improved to 3.03 million tonnes in 2004, higher than in the four previous years but still insufficient to meet domestic demand, and the market was tight in 2005, with soaring prices in Antananarivo from the beginning of the year. A kilogram of rice in the first half of 2005 cost an average of 1 137 ariary, up from 663 in 2004 and 543 in 2003 year-on-year, and this rise is likely to increase poverty considerably and boost inflation.

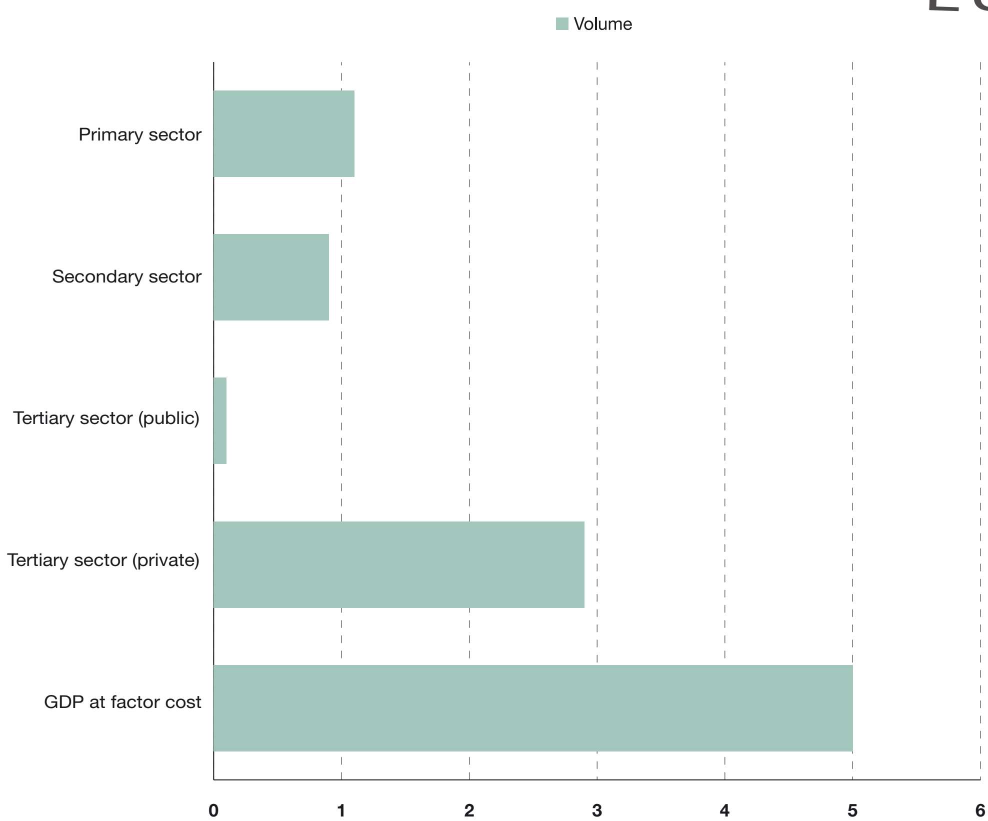
To diversify the economy and make it less vulnerable to changing world commodity prices, the government began encouraging free zones in the early 1990s. Foreign investors were given tax breaks and had access to cheap local labour and preferential trade agreements with the European Union (the Everything But Arms initiative) and the United States (the African Growth and Opportunity Act – AGOA). Madagascar attracted many firms, especially from Mauritius, mainly because of its low wage levels. The structure of exports changed

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

as output from the free zones grew 20 per cent a year between 1997 and 2001. The zones now provide half of all jobs in the secondary sector but have little impact beyond Antananarivo and account for only about 1 per cent of the country's jobs.

The future of the zones is uncertain. The end of the WTO's Multifibre Arrangement pits the country against Asian competitors in markets where it hitherto had preferential treatment. Despite low labour costs, many textile firms that came to the island sustained serious losses during the political troubles in 2002. Many have since closed their doors and others are expected to follow. As a result, free-zone exports fell 24 per cent in the first half of 2005 year-on-year. This indicates that restoring the country's competitiveness will require something other than cheap labour. The International Labour Office (ILO) says the cost of

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**12.8**	**14.2**	**17.7**	**27.5**	**28.2**	**28.5**	**27.9**
Public	6.5	4.8	7.7	12.5	12.6	12.5	12.1
Private	6.3	9.4	9.9	15.0	15.6	16.0	15.8
Consumption	**95.3**	**92.3**	**91.2**	**88.9**	**88.0**	**87.6**	**86.5**
Public	7.6	8.3	10.3	9.1	9.2	9.0	8.6
Private	87.7	84.0	80.9	79.7	78.8	78.6	77.9
External sector	**-8.2**	**-6.6**	**-8.9**	**-16.3**	**-16.2**	**-16.0**	**-14.4**
Exports	21.8	16.0	22.8	31.7	32.4	31.7	31.5
Imports	-30.0	-22.5	-31.7	-48.0	-48.6	-47.8	-46.0

Source: National Statistics Institute data; estimates (e) and projections (p) based on authors' calculations.

labour in Madagascar is about half that of China, but Madagascan firms are less productive than Chinese, so it costs more to produce a garment in Madagascar than in China. Skilled labour in Madagascar is also quite expensive compared with other countries at the same level of development.

Tourism grew strongly in 2005, with international arrivals up 13 per cent in the first quarter. Madagascar is considered a richly-varied tourist experience, with its scenery and unique plant and animal life, but political instability and lack of hotel infrastructure have long hampered the sector's development. The 2002 troubles reduced hotel occupancy rates to 22 per cent from more than 60 per cent during the 1999-2001 period, but the industry has recovered, slowly but steadily, and the rate was over 40 per cent in 2003 and 55 per cent in 2004. The country received 170 208 tourists in 2001, 56 per cent of them from France. Numbers dropped by almost two-thirds in 2002 but then rose again, reaching 228 784 in 2004. Earnings in the first half of 2005 were already 18.7 per cent more than for the entire previous year.

Madagascar is pinning great hopes on tourism as a means of economic development, but major investment is needed to improve the quality and quantity of services. The scarcity of direct international flights does not help. Infrastructure (roads, railways and public transport) is often uncomfortable and unreliable. Tourist lodgings, products and services are not up to international standards, and entering the country and getting visas is a slow business. The country still lacks a distinctive international image as a tourist destination because of lacklustre marketing in recent years. Tourist activity in the country is poorly organised, regulated and co-ordinated.

The mining sector could soon be a big contributor to GDP, with various investments announced in 2005, including in August a commitment of nearly $585 million by the Canadian firm Qit Madagascar Minerals SA (QMM) to mine ilmenite (titanium ore) at Tolagnaro. Production is expected to start in 2008 at the rate of 750 000 tonnes a year, which is almost 10 per cent of world needs.

These economic developments were accompanied by increased private investment in 2004, though investment slowed in 2005 owing to a less expansionary budget policy. Private investment's contribution to GDP has risen steadily since the 2002 political crisis, topping 15 per cent in 2005. Public investment sank to its lowest level in 2002 but has increased steadily since then, partly due to investment in the road network. As a result, the gap between public and private funding has shrunk considerably during this period. Government consumption should continue to fall as a share of GDP.

Macroeconomic Policies

Fiscal Policy

The government has a permanent fiscal deficit that has steadily increased over the past five years (except in 2003) and shows no sign of stopping. The deficit stood at 6.3 per cent of GDP in 2005, one percentage point more than in 2004, and is expected to be more than 5 per cent in 2006 and 2007. A major cause is the strong rise in capital spending.

On the revenue side, foreign aid has been a major source of budgetary revenue since 2004. The national tax burden increased one percentage point in 2004 to about 11 per cent, probably because of better collection. Recent oil price rises do not seem to have improved government revenue, as tax income from oil products in 2005 fell to 46 084 billion ariary in 2005 (58 972 billion in 2004). A fall in consumption more than made up for the effect of higher prices on tax revenue.

Tax and duty on non-oil imports are still a significant part of tax revenue (13 per cent in 2004), and the budget's dependence on taxation of trade is worrying in an international climate where the ultimate aim of more and more trade agreements (multilateral, regional and bilateral) is to abolish tariffs. The Southern African Development Community (SADC), for example, plans to reduce customs duties on trade between members by 85 per cent in 2008 and abolish them in 2012.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**15.0**	**9.6**	**14.7**	**20.3**	**18.8**	**18.2**	**17.5**
Tax revenue	9.4	7.7	9.9	10.9	10.7	10.5	10.3
Grants	5.3	1.6	4.5	8.2	7.0	6.5	6.1
Total expenditure and net lending[a]	**17.4**	**14.7**	**18.7**	**25.1**	**25.1**	**24.2**	**22.9**
Current expenditure	10.9	9.9	11.0	12.6	12.5	11.7	10.7
Excluding interest	*7.8*	*8.7*	*9.4*	*9.7*	*9.8*	*9.6*	*9.3*
Wages and salaries	3.7	4.6	5.3	4.9	4.5	4.2	4.0
Interest	3.0	1.2	1.6	2.9	2.7	2.1	1.5
Capital expenditure	6.5	4.8	7.7	12.5	12.6	12.5	12.1
Primary balance	**0.6**	**-3.8**	**-2.4**	**-1.9**	**-3.6**	**-3.9**	**-3.9**
Overall balance	**-2.4**	**-5.0**	**-4.1**	**-4.8**	**-6.3**	**-6.0**	**-5.4**

a. Only major items are reported.
Source: Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors' calculations.

Customs duties and taxes having equivalent effects produce major distortions and lead to poor allocation of funding, so the government should gradually replace them with more neutral taxation.

Monetary Policy

The job of the Madagascan Central Bank (BCM) is to control inflation and keep the ariary stable externally. The bank's intervention rate has been steady at 16 per cent since September 2004. Inflation, measured by the consumer price index, was estimated for 2005 as 18.3 per cent at the end of the year, up from 13.4 per cent in 2004, the rise being due to higher prices for oil, especially from August, and rice. The rate should fall below 10 per cent in 2006 unless tropical cyclones disturb the rice market.

The BCM is supposed to be independent from the government but in practice gives it statutory loans amounting to 10 per cent of the previous fiscal year's tax revenue. This has an adverse impact on the real economy through an eviction effect. Few private investment projects are possible because of the high interest rate.

The BCM intervenes to limit major interbank exchange rate fluctuations. The ariary lost about three-quarters of its value against the euro and the US dollar between January and May 2004, but was stable in 2005 despite the skewed balance of payments.

External Position

Madagascar has a large structural deficit in its current account. The trade balance has considerably worsened since 2002, and a record trade deficit of 13.8 per cent of GDP was expected in 2005 as well as poorer terms of trade. The deficit rose from 294 billion SDRs in 2004 to 332 billion in 2005, partly as a result of a 50 million SDR drop in the value of the country's exports, which in turn was mostly due to lower world prices for agricultural items, especially vanilla. The trade balance can be expected to improve, however, if there are no major climatic disasters.

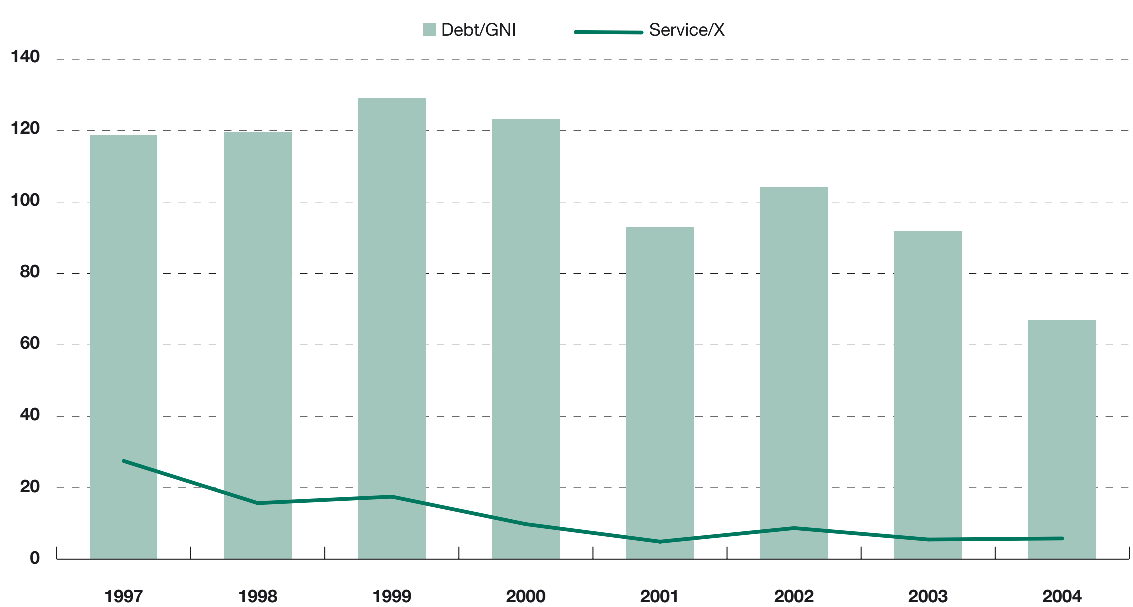
Europe, especially France, remains the chief buyer of Madagascan exports. The United States is also a big customer, mainly for vanilla and textiles. Madagascar was very quick to take advantage of AGOA, and in 2003 the United States became the main destination for Madagascan textiles. The end of AGOA's "third-party provision" (which affects most of these exports) in 2007 will be a big challenge to Madagascan firms. The country is highly vulnerable to the expiry of many preferential trade agreements, which cover 87 per cent of its textile exports. The government is very enthusiastic about regional integration, and the country is a member of several regional groups, including the SADC and

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-4.9	-1.1	-4.0	-10.0	-13.8	-14.0	-12.8
Exports of goods (f.o.b.)	14.3	11.0	14.2	22.7	19.9	19.2	18.9
Imports of goods (f.o.b.)	-19.3	-12.1	-18.2	-32.7	-33.7	-33.2	-31.7
Services	-3.2	-3.9	-5.4	-6.3			
Factor income	-2.6	-1.6	-1.4	-1.5			
Current transfers	5.1	2.2	5.5	7.5			
Current account balance	**-5.5**	**-4.4**	**-5.3**	**-10.3**			

Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

COMESA (the Common Market for Eastern and Southern Africa). However, the volume of trade with neighbouring countries is still very low.

Higher world oil prices also increased pressure on the balance of payments, with the national energy bill up 80 per cent in 2004 and a further 50 per cent in 2005. The rise in 2005 was smaller only because the national electricity company, unable to pay its fuel bills, had to introduce power cuts to ration demand. The oil bill is expected to increase another 20 per cent or so in 2006.

Madagascar recently began offering incentives to foreign investors and has liberalised the current account. Foreign investors can now repatriate profits, and the government is reviewing the law on foreign ownership of land with the aim of reassuring non-Madagascan investors.

Madagascar is due to get $1.5 billion of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative following a December 2005 decision by its creditors. These funds will be included in the 2006 budget and should significantly ease the country's debt burden, but the problem of domestic debt remains.

Structural Issues

Recent Developments

The monopoly state power company Jirama has been in poor financial condition for several years, mainly due to incompetent management. It made poor decisions on investments and committed errors in the choice of power generation technology, notably by opting for diesel-fired thermal plants instead of hydroelectricity. This option was selected because the initial investment cost of thermal plants is lower, but production costs in such plants are at the mercy of changing world oil prices, so the 50 per cent price rise between August 2004 and December 2005 was a heavy burden that forced up rates for customers. At the price peak in June 2005, Jirama's monthly costs were $10 million but it was taking in only about $5 million in revenue.

The firm's financial situation has also suffered from its inability to establish a sound management system. It cannot collect bills from government bodies and continues to sell electricity at prices far below production cost to many consumers. For example, it sells power at 10 per cent of the normal price to its own employees, which encourages them to increase their own consumption and resell to their neighbours.

For two months these losses were paid for by special loans from the World Bank, which then refused to continue them if the firm was not restructured. Jirama was thus forced to introduce frequent power cuts and in November 2005 raised its rates by one-third. An agreement between the government, the World Bank and the IMF then transferred management to a foreign consortium led by a German firm. But the government sacked the managing director, a former official of the Canadian state-owned firm Hydro-Québec. Jirama is to be reorganised, and the government has obtained $125 million in short-term aid from donors for the 2006-09 period.

Mining, one of the country's most promising sectors, is functioning well below its potential. Various governments since 1999 have tried to boost its institutional capacity: a mining code was passed and implemented, as well as a law on major investments (over 1 trillion Malagasy francs) enacted in 2002. The government wants to improve and strengthen governance in the sector to benefit the local population, the country and local and foreign investors.

The business climate is hindered by many bureaucratic complications that increase production costs for private companies, especially export firms, which have to fill in numerous forms and visit distant government offices. A one-stop window is needed for exports. The government has made efforts recently to streamline customs procedures, and the computerisation of the port of Toamasina (Tamatave) and acquisition of a scanner should speed up shipping and customs clearance of containers. However, the improvements will have the desired effect on efficiency only if customs staff make proper use of the new equipment.

Privatisation is going very slowly in Madagascar. The government has come under much pressure to sell off Jirama, which is to be reorganised by its new foreign managers. Privatisation of Aéroport de Madagascar is planned for 2006. A call for expressions of interest was issued at the end of 2004, but nothing much has happened since.

Transport Infrastructure

Although Madagascar has a larger surface area than France, its road network is very small and of very uneven quality. Only half of its 29 599 kilometres of roads are in good condition, and of these, only 1 728 kilometres are main roads. In short, roads are good in the Antananarivo region, but other towns are much less well served and some regions are cut off.

Madagascar had a good rail network before independence, but it fell into disrepair through mismanagement by the state railway company Madarail, which carried 1 million tonnes of goods and half a million passengers in 1988. The network linked Antananarivo to the port of Toamasina and to Ansirabe. Traffic ceased in 2002 due to lack of maintenance, and the company filed for bankruptcy in June 2005. It was then refloated by the World Bank ($30 million), the European Development Bank ($6 million), the Madagascan government ($5.6 million) and private investors ($1 million) and has since resumed operation. It aimed to carry 232 000 tonnes of goods in 2005 with rolling stock of 13 locomotives and 200 wagons.

Competition with road transport is fierce, since the closure of the railway gave roads an effective monopoly. It takes 15 hours to travel from Toamasina to Antananarivo by road, but 27 hours by train. As the price is roughly the same, people prefer to go by road, other things being equal. The railway infrastructure is also in poor condition, resulting in frequent breakdowns.

To catch up with road transport and achieve its goal of an annual 690 000 tonnes of freight by 2009, Madarail has to become more efficient. Tax changes could help. For example, the government could focus on oil transport from Toamasina to Antananarivo, which now goes by road at major environmental and human risk. If the government wanted to reduce this, it could introduce either legislation or differential taxation to ensure that most oil travels by rail.

Madagascar has 12 airports and 43 airfields. The government liberalised air transport in 1999 and signed a reciprocal "open skies" agreement with the United States in 2004, but has not managed to sign any with other countries. The government has firmly opted for private management of the airports.

International passenger traffic has greatly increased in recent years, returning to the levels seen before the 2002 crisis. Only 73 981 international passengers arrived in the country in 2002, sharply down from 218 150 in 2001. This figure rose to 168 799 in 2003 and 209 613 in 2004, almost back to the 2001 level. The number of international passengers is also expected to be high in 2005, with a provisional figure of 103 000 for the first half of the year. Freight traffic has stagnated in the past two years, at just over 5 000 tonnes annually.

Madagascar is counting on tourism as an engine of development, but it will have to upgrade its airports and make it easier to reach high-interest tourist regions. Nosy Bé airport has grown rapidly, handling 13 823 international passengers in 2004 where previously it had none.

The volume of cargo shipped by sea has been about 300 000 tonnes a year since 2001, but the amount dropped 5 per cent in 2004, mainly because oil tonnage fell by 12 per cent. The country has 16 ports, but over 60 per cent of goods go through Toamasina. As with air transport, the government is pulling out of port management and wants to hand ports over to the private sector. It set up a ports, maritime and river authority in 2000 to regulate port activity. The authority, which started operating in 2004, is responsible for the maintenance and establishment of autonomously administered ports. A new deep-water port is planned for 2008 to enable mining and export of black sand (whose pigment is extracted for use in spacecraft), and its operation will be franchised to private firms.

The government is aware of what needs to be done in the transport sector to boost national development. To this end, in 2000 it launched a $65 million sectoral reorganisation programme to reform regulations, encourage the private sector, ensure good governance, protect the environment and upgrade roads and ports. Priority is to be given to maintenance and preservation of infrastructure to prevent the deterioration that has occurred since the 1970s.

Political and Social Context

The result of the December 2001 presidential election was contested throughout the first half of 2002, with lasting adverse effects, but the political situation is now back to normal. The state is pulling out of many sectors. Press freedom is in good shape and the media can and do criticise government policies, but solid institutions still need to be established to ensure separation between the business world, religious groups and government.

Poverty rates in Madagascar are among the highest in Africa. In 2004, 72 per cent of the population was living below the poverty line of 257 675 ariary ($0.33 a day). This figure is 8.6 percentage points lower than in 2002, when the political crisis caused GDP to plummet by 12 per cent, but is still 2.5 points more than in 2001. More women are poor than men, and the poverty rate is lower in urban areas (54 per cent) than in the countryside (77 per cent). It was rural areas, however, that recorded the largest drop in poverty in 2004 (9 per cent), to a level similar to that of 2001 (77 per cent), while urban poverty was still 10 points higher than in 2002. Poverty intensity declined in all provinces (faritany) between 2002 and 2004. It also fell in rural areas between 2001 and 2004, but increased by 1.9 percentage points in urban areas over the same period.

The main cause of poverty in the countryside, where most poor people live, is poor agricultural performance. Many households have no access to land and are forced to look for farming jobs to earn a living, but wages are very low because the labour supply far outweighs demand. The average daily wage of a male farm labourer in 2004 was about $0.70 a day ($0.64 for women). As the average household has 4.9 people and rural households are larger than urban ones, this income is clearly not enough to rise above the poverty level. The median size of a family plot of land is one hectare, which is small compared with other African countries, and productivity per hectare is very low. In urban areas, the main causes of poverty are lack of jobs and low wages. Extreme poverty linked to this low productivity and certain dietary customs explain the high rate of malnutrition, which affects nearly half of all children below the age of five and about a third of all women.

Major efforts are needed to improve public health. Although the main health indicators have improved in recent years, they are still quite low. The main problems are acute respiratory diseases, malaria and diarrhoea, with malaria causing a quarter of all deaths. The health ministry said in 2003 that there were about 1.5 million suspected malaria cases a year, 9 per cent of them fatal. HIV/AIDS infection has risen fast in recent years, reaching 1.8 per cent in 2005, with unprotected sex the main form of transmission. The disease's spread is linked to a high rate of sexually-transmitted infections (STI) among young people under 20. Many are still unaware of how HIV is transmitted: a survey conducted in 2003-04 showed that fewer than 20 per cent of Madagascans could cite two ways of preventing infection. Given the gravity of the epidemic elsewhere in sub-Saharan Africa, a vigorous awareness-raising campaign is needed to inform people about methods of prevention.

The maternal mortality rate is 469 per 100 000 live births, mainly because of complications during pregnancy and delivery. Infant mortality is equally worrying, with nearly one child in ten dying before the age of five. These very poor indicators reflect the abject poverty of most of the population and the health sector's lack of resources. The 2005 UN Human Development Report stated that the country had only nine doctors for every 100 000 people, one of the lowest rates in the world. Access to and use of health services are thus very limited.

Madagascar has made great progress in education under the Education for All programme, with primary school enrolment rising from 67 per cent in 2001 to over 90 per cent in 2005. Educational quality is still low, however, and repetition and dropout rates high. This is largely due to the shortage of teachers, their lack of training and the distance between schools and homes, as well as to broader problems such as poverty, which reduces parental resources. As 41 per cent of the population is under 15 years of age, the government must continue efforts to increase provision and encourage parents to send their children to school. Considering the high illiteracy rate, many reforms are needed to upgrade Madagascar's human capital and thus enable sustainable economic growth.

Malawi

key figures

• Land area, thousands of km^2	118
• Population, thousands (2005)	12 884
• GDP per capita, $ PPP valuation (2005)	580
• Life expectancy (2000-2005)	39.6
• Illiteracy rate (2005)	35.7

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/425135245341

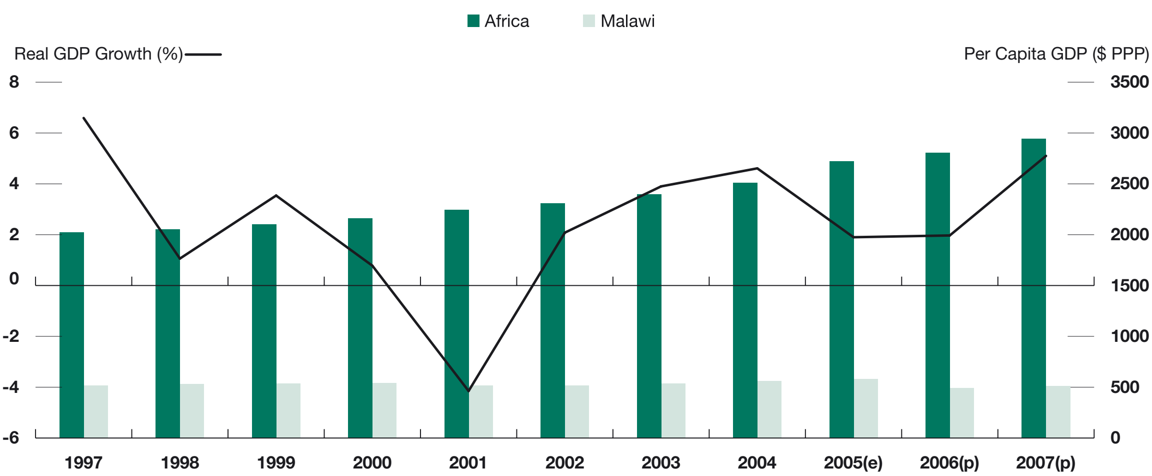
Malawi

MALAWI IS ONE OF THE POOREST countries in the world. It was ranked 165th out of 177 countries according to the 2005 United Nations Human Development Index and had the second lowest GDP per capita in 2003. By all measures, the Malawian economy went through very difficult times in 2005. It faced serious food shortages with an estimated 4.85 million people, i.e. nearly 50 per cent of the population in need of emergency food support. Moreover, 2005 has been a year of political turmoil, with the president facing possible impeachment and resigning from his party to form a new one, an initiative which has very little support in parliament.

The government faces three major challenges in the coming years. First, it must find a permanent solution to the recurrent food shortage. The yearly food shortage in Malawi constrains development and has strong negative effects on the welfare of nearly half the population. Second, the government must tackle its recurrent budget deficit and refrain from systematically exceeding the agreed budget. Third, the high prevalence of HIV/AIDS has reduced life expectancy in Malawi to below 40 years in 2003 and increased the under-5 mortality rate to 230 per 1 000, one of the highest in the world. Such a high death rate has already started to exert a heavy toll on Malawi's human capital and slow down its economic development.

Food crisis and high HIV/AIDS rates are compromising stability and growth.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: Central Statistical Office data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

Real gross domestic product (GDP) is expected to grow by 1.9 per cent in 2005 compared to 4.6 per cent in 2004. This lower growth is due to contraction in the agricultural sector, caused in part by the dry spell experienced during January-March 2005. Indeed, agriculture, which constitutes about one-third of GDP, contracted by 9.1 per cent in 2005 compared to a growth of 2.7 per cent in 2004. Most of the major crops (maize, tobacco, groundnuts, rice and beans) were severely affected by the dry spell and all yielded lower harvests than in 2004. For instance, the 2005 maize harvest, of great importance for Malawi's food security, is estimated to have been 24 per cent lower than in 2004. It is expected that the growth rate will remain below 2 per cent in 2006 but that it will pick up in 2007.

Tobacco production fell to 146 000 tonnes in 2005 from 180 000 tonnes in 2004. The fall in production can mainly be attributed to there now being fewer incentives for farmers to produce tobacco. Indeed, tobacco prices were low in 2004 and prompted farmers to shift away from tobacco production in 2005. Tobacco prices remained disappointingly low during 2005 when prices averaged $1.11 per kg compared to $1.14 per kg in 2004. Of great concern were burley tobacco prices, as burley makes up the bulk of tobacco grown in Malawi. For the 2005 season, burley prices averaged $0.99 per kg, which is 9.2 per cent lower than the price in 2004. Given the low prices that prevailed in 2005, the incentives to produce tobacco will be even lower in 2006 and an even lower output should be expected. This is alarming for Malawi as tobacco production generated $202 million in export revenue in 2004, and is expected to have generated $226 million in 2005.

There have also been some recent changes in the tobacco market in Malawi. Two of the three top tobacco buyers, Dimon and Standard Commercial, merged in November 2004 to form Dimon-Stancom. The other company, Limbe Leaf, is a subsidiary of the US parent company Universal Leaf. These two companies are supplemented by smaller niche market companies such as Africa Leaf and Premier Leaf, which have negligible market shares. The near duopoly situation gave rise to some concern about collusion but no evidence has been found to that effect.

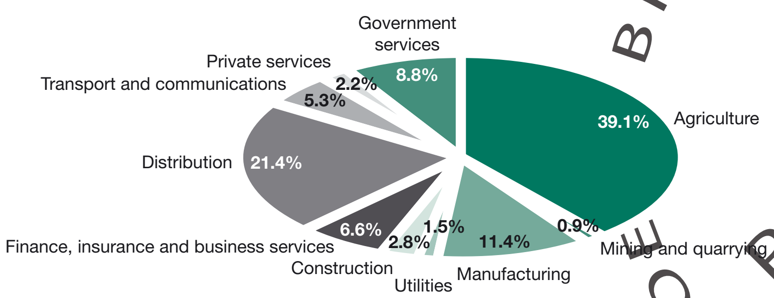
Total tea production in 2005 is estimated to have reached 40 000 tonnes, which is lower than the 2004 harvest. Lower tea production arose because of the dry weather conditions in 2005. Moreover, tea prices have been depressed over the years due to over-supply on the world market. Lower tea production and low prices resulted in a considerable decline in earnings to $0.9 million during the third quarter of 2005 compared to $3.2 million in a similar quarter of 2004.

Manufacturing and mining account for 17 per cent of GDP, and services for 27 per cent of GDP. Despite the continued poor overall economic performance, output in the manufacturing sector grew by 11.9 per cent in 2005 compared to 6.9 per cent in 2004. Value added in the construction sector grew by an impressive 14.7 per cent in 2005 compared to 10.4 per cent in 2004. The growth in 2005 mainly reflected an increase in medium- and small-scale construction activities. Output in the transport sector grew by 8.8 per cent in 2005, an increase from 6.7 per cent in 2004. The increase in 2005 was mainly the result of the transport of donor relief items, especially maize, as well as improved performance in the communication sub-sector.

Inflation in 2005 is expected to reach 16.4 per cent. The main source of inflationary pressure is the higher price for maize, which has a weight of 58 per cent in the consumer price index. This was due to a shortage of domestically produced food and an increase in maize prices on international markets. As can be seen below, monetary policy also added to inflationary pressure. However, at the end of 2005 there were signs that the inflation rate had slowed down marginally during the third quarter of 2005 to an average of 13.5 per cent from 15.5 per cent as recorded in the preceding quarter. The slowdown can be attributed to some deceleration in the price increase of food. Non-food inflation, however, exhibited some acceleration but this only partially offset the decline in food price inflation. Unless there is severe drought, it is expected that the inflation rate for 2006 and 2007 will be almost 10 per cent.

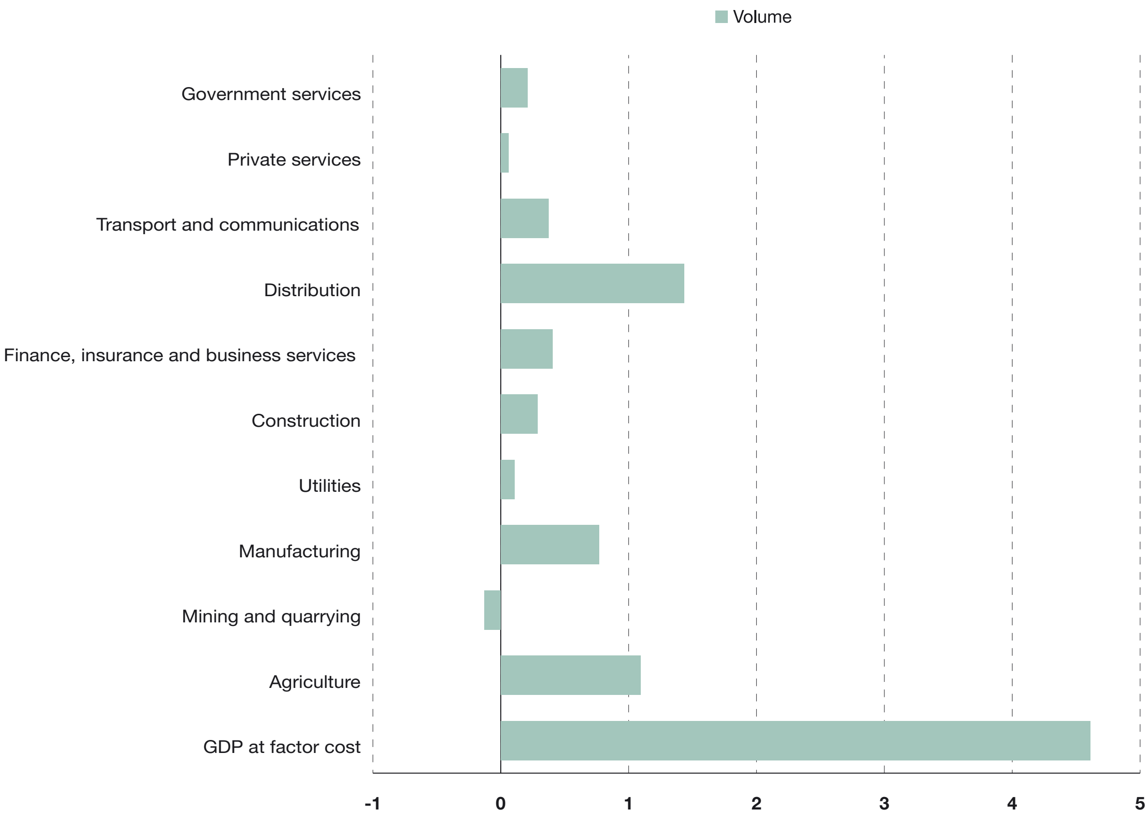
Output shortfalls in the agricultural sector and acceleration in inflation depressed household incomes, with the result that growth in both private consumption and private investment slowed down in 2005. The degree of stimulus provided by the fiscal deficit also fell, and the balance on traded goods and non-factor services deteriorated, exerting further downward pressure on GDP.

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

Malawi has consistently had negative savings rates for the past five years. This mirrors prevailing poverty in the country. Such a situation places serious constraints on Malawi's capacity to leverage private investment and explains its reliance on overseas development assistance to finance investment projects. Over the past five years, gross investment as a share of GDP has been hovering around the 11 per cent mark. It is expected that it will reach 11.3 per cent in 2005, which is lower by 0.1 percentage points than in 2004. However, some progress has been made in 2005 and the 2005/06 budget allocates 30 per cent of total expenditure to development, which is the highest allocation yet in the history of Malawi.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**11.3**	**11.7**	**12.5**	**11.4**	**11.3**	**12.0**	**12.1**
Public	6.7	7.7	8.4	7.5	7.4	8.0	8.1
Private	4.6	4.0	4.1	3.8	3.8	4.1	4.0
Consumption	**101.0**	**106.2**	**110.2**	**105.4**	**108.8**	**107.6**	**107.5**
Public	17.5	14.7	16.3	17.1	16.1	16.9	16.9
Private	83.4	91.5	93.9	88.3	92.7	90.7	90.6
External sector	**-12.3**	**-17.9**	**-22.7**	**-16.8**	**-20.0**	**-19.6**	**-19.5**
Exports	21.7	23.9	26.8	28.8	25.7	23.6	22.7
Imports	-34.0	-41.9	-49.5	-45.5	-45.7	-43.2	-42.2

Source: National Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

Macroeconomic Policies

Fiscal Policy

The government of Malawi has consistently run large budget deficits for the past five years. From a high of nearly 8.3 per cent of GDP in 2003/04, the budget deficit is expected to decline to 7 per cent of GDP in 2004/05. Improvement in the budget deficit is expected to continue over the next two years. In the past, the government was in the habit of overspending on activities of little benefit to the poor, e.g. travel, state residences, foreign affairs, defence, the National Intelligence Bureau and Special Activities. For the first time, the government has not had to recourse to unbudgeted expenditure in 2005. However, the lower current budget deficit appears to have been achieved mainly because of higher grants obtained by the central government.

Although there appears to be some political will to control government expenditure, some measures have been taken which seriously worsened the budget deficit. In 2004/05, the government put in place a fertiliser subsidy at a cost of 3.3 billion kwachas. The objective was to allow farmers to obtain fertilisers cheaply so that they could increase their productivity. Unfortunately, the programme was poorly managed in 2004, and the government was late in placing the orders for fertiliser, which reached the farmers only late in the season. The subsidy programme was renewed in 2005 and extended to include tobacco farmers, which has substantially increased its cost. The cost of the subsidies programme in 2005 was initially programmed at 2.8 billion kwachas, but was then increased to almost 5.7 billion kwachas. Higher than expected fertiliser expenditure was offset by postponing the 1 billion kwachas budgeted for local elections to the following year, and through cuts to the budgets of all other ministries except agriculture, education and health. However, these budget cuts were insufficient as the real cost of the subsidy was underestimated. Moreover, the subsidy also had a negative impact on the private sector fertiliser industry as it undermined distribution and pricing mechanisms.

On the revenue side, the government of Malawi has been quite successful in collecting taxes, especially in comparison with the rest of Africa. The political will to improve fiscal management has contributed to an increase in government revenues recently. Taxes, which account for almost all of the government's non-grant revenue, have exceeded 20 per cent of GDP since 2003/04. However, 50 per cent of taxes are paid by one company (Prescorp), which makes government finances highly vulnerable. Moreover, grants have consistently accounted for a large share of the government's total revenue. This share is projected to increase from 33 per cent in 2004/05 to 45 per cent in 2005/06. Such heavy reliance on grants to fund government expenditure presents some unique challenges. First, grants are highly unpredictable and may be withheld whenever the government does not meet donor expectations. This unpredictability means that it is difficult for the government of Malawi to commit to long-term expenditure programmes. Second,

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

	1996/97	2001/02	2002/03	2003/04	2004/05	2005/06(e)	2006/07(p)
Total revenue and grants	**17.1**	**29.9**	**26.2**	**34.6**	**35.8**	**41.2**	**40.5**
Tax revenue	14.7	16.8	17.3	21.5	20.1	21.1	20.8
Grants	1.3	11.4	5.6	12.2	13.7	17.5	17.1
Total expenditure and net lending	**20.9**	**34.6**	**33.0**	**42.8**	**42.7**	**45.5**	**45.6**
Current expenditure	18.7	28.2	28.3	36.6	35.9	37.0	36.8
Excluding interest	*13.9*	*23.4*	*25.0*	*31.1*	*27.4*	*30.1*	*30.8*
Wages and salaries	4.5	5.9	7.1	6.3	7.9	8.2	8.1
Interest	4.8	4.8	3.2	5.6	8.4	7.0	5.9
Capital expenditure	0.5	5.0	4.6	5.6	6.3	7.6	7.9
Primary balance	**0.9**	**0.0**	**-3.6**	**-2.6**	**1.5**	**2.7**	**0.8**
Overall balance	**-3.9**	**-4.8**	**-6.8**	**-8.2**	**-7.0**	**-4.2**	**-5.1**

Source: Reserve Bank of Malawi data; estimates (e) and projections (p) based on authors' calculations.

a high level of grants flowing into the country can crowd out other productive activities. However, in view of the current food crisis and deep poverty in Malawi, there is a pressing need for increased aid. Nevertheless, it is advisable for the government to put in place a long-term strategy to reduce the dependency of Malawi on grants.

Finally, the financial performance of the agricultural marketing board of Malawi (ADMARC) has deteriorated over the years. It has consistently made losses and it is projected to lose 572 million kwachas during the 2004/05 fiscal year, up from a loss of 1 million kwachas in 2003/04. Such continued losses will only aggravate the government's consolidated budget deficit and this situation is not sustainable. Fortunately, unlike many non-oil producing countries in Africa, the state-owned electricity company was not affected by the oil price increase, because most electricity is generated by hydropower, and the rest from coal.

Monetary Policy

The fiscal deficits for 2001/02 to 2003/04 were largely financed by short-term borrowing through Treasury Bills issued by the central bank for sale to domestic banks. This high demand for local funds pushed T-bill rates to very high levels with the highest level reached in 2002 at 41 per cent. These rates have since been falling. However, they were still very high at 24.5 per cent in 2005. The consequences of using short-term instruments, which carry high interest rates, to bridge the budget deficit are that Malawi faces very high domestic debt servicing which is expected to reach 7 per cent of GDP in 2005.

From a high of 45 per cent in 2003, the Malawi Reserve Bank rate was lowered to 35 per cent in June 2004 and further reduced to 25 per cent in 2005. The high interest rate was a consequence of the previous government issuing T-bills to finance its budget deficit. A side effect of such behaviour was the high inflation rate which prevailed over the same period. A second inflationary factor, linked to the first, is the growth in money supply. The Reserve Bank of Malawi is allowed to provide short-term financial support to the government of up to 20 per cent of the government's expected revenue for the fiscal year. Money supply increased by 29.3 per cent in 2003 and 29.8 per cent in 2004. Such high growth rates in money supply are bound to yield high inflation rates. A third contributing factor to the high inflation rate was the shortage of food on the domestic market, leading to price increases that were accommodated by monetary expansion.

External Position

Malawi is a member of the Common Market for East and Central Africa (COMESA) and the Southern African Development Community (SADC). It has bilateral agreements with Zimbabwe and South Africa. Malawi is in the process of signing a Free Trade Agreement (FTA) with Mozambique and has negotiated a FTA with Tanzania. Malawi has been granted preferential market

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-5.9	-9.4	-14.2	-16.6	-18.8	-18.5	-18.5
Exports of goods (f.o.b.)	20.2	21.4	24.6	26.6	24.9	22.8	21.9
Imports of goods (f.o.b.)	-26.2	-30.7	-38.8	-43.2	-43.7	-41.3	-40.3
Services	-6.4	-8.5	-8.5	-9.1	-8.9		
Factor income	-1.3	-1.9	-1.9	-2.4	-2.2		
Current transfers	-0.3	0.4	0.4	0.9	2.3		
Current account balance	**-14.0**	**-19.4**	**-24.2**	**-27.1**	**-27.5**		

Source: Reserve Bank of Malawi data; estimates (e) and projections (p) based on authors' calculations.

access to the United States and the European Union through the Africa Growth and Opportunities Act (AGOA) and Everything but Arms (EBA).

Malawi's traditional markets have been the European Union and the United States, which attracted more than 70 per cent of Malawi's exports. Over 95 per cent of Malawi's exports are made up of tobacco, sugar, tea, coffee, cotton, textiles and garments. Agricultural produce (mostly unprocessed) has comprised 85 per cent of major exports over the last three years. The textiles and garments sector is struggling to recover from the recent ending of the Multi-Fibre Agreement (MFA). Textile and garment export volumes remain small, particularly when compared with those achieved by other emerging clothing exporters in the region, such as Mauritius and Lesotho.

Malawi is currently developing a national export strategy. Central to this has been the analysis of development of the value chain on cotton, textiles and the clothing industry. The findings are not very positive for the garment-manufacturing sector for the following reasons. First, there is only one textile company in Malawi, which is small and inefficient, and has lobbied for increased tariffs on textiles. Second, the actual cotton staple in Malawi is not of the right quality for use by the textile company in Malawi. Third, the end of the MFA and long transport distances to ports mean that the window of opportunity for the existing textile and garment industry is limited.

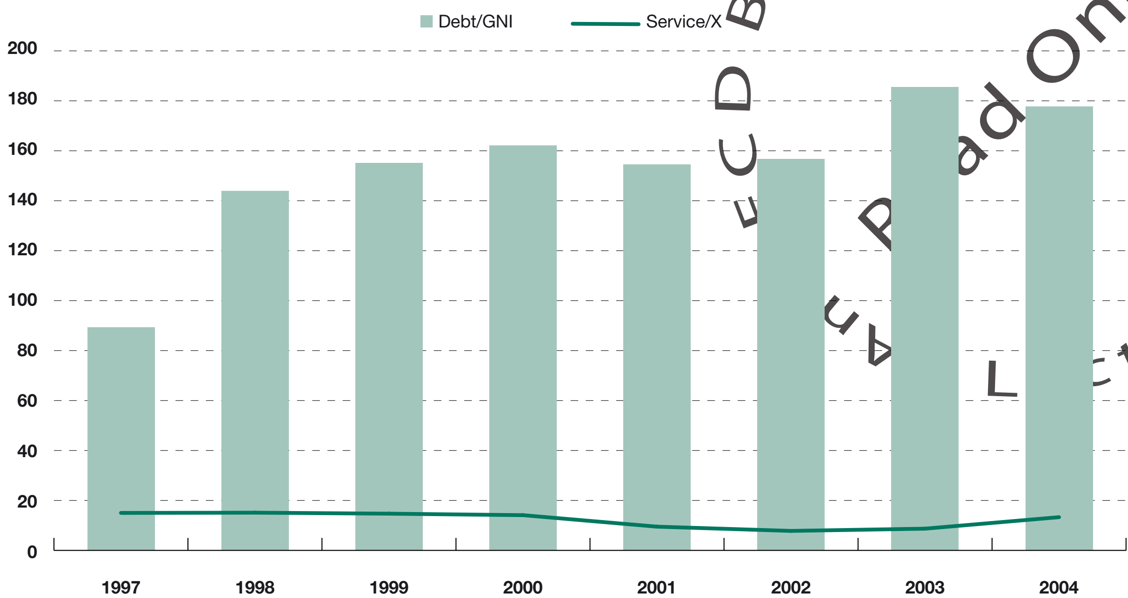
The composition of imports is far less concentrated than Malawi's merchandise exports and no single product category accounts for more than 17 per cent of total imports. Malawi's leading imports are vehicles (and parts), petroleum fuels, various types of machinery and fertilisers. During the drought years of 2001/02 and 2005, maize has been a major import. Other prominent imports are pharmaceuticals, iron and steel, paper and paperboard, plastics and plastic articles, products for the printing industry, wheat flour and cement.

Domestic debt levels are very high due to the previous government's loose fiscal policy. It is estimated that outstanding domestic debt is projected to rise to 23 per cent of GDP in 2005, from 22.6 per cent in 2004. The total debt stock as at the end of the third quarter of 2005 was $3 billion. Debt owed to multilateral creditors, at 91.9 per cent of the total debt stock, constituted the bulk of the country's external obligations.

Malawi is eligible for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative for debt relief. However, reaching the HIPC completion point depends upon meeting several conditions, including *a)* the government achieving at least six months of successful PRGF implementation; and *b)* concurrently, achieving one year of implementation of the donor-supported Poverty Reduction Strategy which was recently put in place. It is expected that Malawi will reach the HIPC completion point by mid-2006. Given that 81 per cent of Malawi's external debt is with multilateral institutions, it stands to gain considerably when it reaches its HIPC completion point.

The kwacha has been depreciating regularly since the beginning of the year. In March 2003, the exchange

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

rate was $1 to 97 kwachas. In 2005, the current official exchange rate was $1 to 115 kwachas. The foreign exchange reserves in December 2005 were estimated to cover only 1.2 months of imports. This was at the beginning of the lean period when the inflow of currencies is very low. The forex situation is hampering the imports of maize being brought in to alleviate the food shortage.

Structural Issues

Recent Developments

A large section of the population in Malawi has regularly faced an annual food deficit between maize harvests. This shortfall was, in the past, alleviated by the region's maize reserves. However, this is no longer the case. Internally, maize stocks have been reduced by poor government decisions. In addition, the drought at the beginning of 2005, poor provision of fertilisers and price controls all contributed to lower maize harvests. The government has been controlling the price of maize at 17 kwachas per kg. Externally, the neighbouring countries of Zambia and Zimbabwe have also suffered from adverse weather conditions. They are now importing, rather than exporting, maize. As a result, the government of Malawi estimates that 2.1 million metric tonnes of maize is needed to cover the needs of the population for the 2005/06 marketing season. Taking into consideration carry-over stocks, the food shortfall for 2005 amounts to approximately 482 608 tonnes.

Government interventions in the maize market have generally undermined the private sector, which cannot enter into import contracts on maize with the confidence that the government will not interfere and bring in subsidised maize. Moreover, the export ban stops commercial farmers from growing maize, as they will not be able to export their surpluses. Price controls on the maize market also force the private sector to sell at a loss. The main subject of discussion in Parliament over the past 35 years has always been maize and fertiliser. The government does not have the confidence to leave maize distribution to the private sector. As a result, discussions between the private sector and government on the importation of maize frequently break down and there is no real partnership on these issues.

A direct consequence of the food shortage is increased poverty, which has remained persistently high during the past 10 years. The second Malawi Integrated Household Survey (carried out between March 2004-April 2005) found that 52 per cent of the population is poor (living on less than $0.40 per day), and that 22 per cent is ultra-poor (living on less than $0.24 per day). The incidence of poverty does not appear to have changed significantly over time, as 54 per cent of the population was classified as poor in the previous 1997/98 survey. There are, however, important regional variations in poverty rates. The southern region has the highest poverty rate (60 per cent), followed by the northern region (54 per cent) and the central region has the lowest proportion (44 per cent) of poor people. About 25 per cent of the population in urban areas is poor, compared to 56 per cent of the rural population. A similar pattern is observed for the ultra-poor with an ultra-poverty rate of 7 per cent in urban areas compared to a minimum of 16 per cent in rural areas. Finally, while 51 per cent of individuals in male-headed households are poor, the corresponding number for female-headed households is 59 per cent.

Poverty is also having a negative impact on children's development. In 2004, 48 per cent of children under five years of age in Malawi were growth-stunted and 22 per cent were severely growth-stunted. Five per cent of children are emaciated or too thin, and 22 per cent are underweight. Children's nutritional status in 2004 was virtually identical to their status in 1992 and 2000, indicating that there has been no improvement in the nutritional status of children under age five since 1992. The under-five mortality rate in 2004 is still one of the highest in the world at 133 deaths per 1 000 live births.

The commercial cultivation of tobacco in Malawi dates back to the 1890s. Since then, tobacco has been the main cash crop of Malawi. The number of smallholders producing tobacco has increased dramatically since the repeal of the Special Crops Act in 1994, which restricted the production and marketing of high value crops to big farm holders. As a result, smallholders now account for 80 per cent of national crop production. Tobacco producers face three main problems. First, the declining international price of tobacco has had adverse effects on their profitability. Second, they find it difficult to compete against EU tobacco producers because of the subsidies these receive. Producers in four EU tobacco-producing countries receive $1.60 per kg of tobacco, which was higher than the average auction price of tobacco in Malawi in 2005. Third, the demand for tobacco in developed countries has not grown because of the anti-smoking lobby.

Malawi tobacco producers also face stiff competition from other developing countries, in particular Brazil. There is some concern that if Brazil is granted duty-free access to the EU, Malawi tobacco will lose out because of its higher cost. Tobacco imports into the EU from some competing countries such as Brazil and the United States, are charged with a levy of $0.26-0.29 per kg. Without that levy, Brazil would be more competitive than Malawi because farming there is carried out on a larger scale.

Between 80 000 and 100 000 smallholder households typically cultivate cotton together with maize and drought-resistant small grain crops. Current crop estimates are in the region of 40 000 tonnes, much lower than the 80 000 tonnes produced in 1988. A variety of factors have contributed to these adverse developments, namely the deteriorating quality of available planting seeds, with limited introduction (or approval) of newer varieties, inefficiency in marketing arrangements translating into substantially lower prices for farmers and limited farmers' access to credit. The formation of the Cotton Development Association (CDA) in 2003, which brings together the main private sector stakeholders in the cotton sector, has had some success in stimulating production.

There have been some efforts to diversify agriculture. For instance, there has been considerable investment in the cotton sector where output has doubled over the past two years. There has also been investment in coffee to sell it fully processed and packaged and to build niche markets. Finally, macadamia nuts are also actively being promoted. These efforts have contributed to the slight diminishing of reliance on tobacco as a source of foreign reserves for Malawi. However, it should be noted that tobacco exports have also decreased because of lower world prices and market changes.

The private sector in Malawi is small, with a shrinking manufacturing sector amounting to about 13 per cent of GDP, employing about 3 per cent of the labour force. Malawi does not offer a favourable environment for private-sector development. Drawbacks include its landlocked situation, geographical distance from seaports and poor power supply. Indeed, the 40 megawatt capacity Tedzani I & II power station has been out of service for two years, the interconnection from Caborra Bassa (Mozambique) is progressing too slowly and the current Walkers Ferry power station suffers from stoppages. The cost of telecommunications is high in Malawi because of monopoly control of landline services by the state-owned Malawi Telecommunications Limited, the current duopoly on mobile phone networks, and over-regulation and control of the market by the Malawi Communications Regulation Authority. Internet access is also very expensive; a dedicated 64 kilobyte broadband line cost more than $400 per month in 2005. In that regard, it is unfortunate that the privatisation of Malawi Telecommunications Limited was called off at the eleventh hour by presidential order.

Transport Infrastructure

Malawi has 7 717 km of roads, a third of which are paved. While 94 per cent of paved roads are in good condition, only half of those that are unpaved are deemed to be in good condition. The poor road conditions in Malawi mean that domestic transport costs are much higher than in neighbouring countries. In Malawi they are equivalent to about $0.065-0.075 per tonne/km while in South Africa and Zimbabwe they are much lower at about $0.02 on trunk roads and $0.035 on rural roads. With freight rates being set or "recommended" by the Road Transport Operators Association, the full benefits of a more liberalised market have not yet reached Malawian producers and consumers.

Malawi has a total of 797 km of single-track public railway line of which 717 km are operational. The rail network extends from near the Mozambique border in the south through Blantyre, up to Salima in the north, at which point it changes direction and continues west through Lilongwe, to Mchinji and the Zambian border. There is also a privately-owned 25 km branch off the main north-south line from Namatunu to Changalume. Rail is only used to carry freight, as passenger services are currently suspended. In fact, rail was the main mode of transport for Malawi's foreign trade before the lines to Beira and Nacala were severely damaged in 1984/85. In addition, a 77 km section of track between Cuamba and Entrelagos that was damaged in floods in 2001, has not yet been repaired.

Malawi has four international airports; two major airports in Lilongwe and Chileka (Blantyre) and two minor airports in Mzuzu and Karongo. In addition to these international airports there are a further 19 registered airfields in Malawi, of which four are privately owned. There are also at least 10 known unregistered airfields throughout Malawi. Passenger and airfreight flight schedules and services have been cut, and more use is now made of regional hub airports for international flight links. There are no direct links between Malawi and Europe. The decline of international commercial flights into and out of Malawi, together with restrictions on landing rights (minimum 48 hours prior notice), the high landing and service fees, and a requirement to pay Air Malawi a royalty of 4 per cent on all air cargo, have all contributed to the relatively poor availability and very high cost of airfreight services out of Malawi. As a result, Malawi's cut-flower exporters have had to pay upwards of $2.20 per kilogramme for airfreight to Western Europe, compared with rates of between $1.60-1.85 per kg paid by their Kenyan, Zimbabwean and Zambian competitors.

Lake transport was commercialised in 1994 with the establishment of the state-owned Malawi Lake Services Ltd. However, the company continued to run at a loss, receiving a government subsidy of approximately 25 million kwachas per annum. The service has now been privatised to Glens Waterways Limited and ports are to be privatised next. Lake traffic has fallen since a parallel road to the north was built. The competitiveness of lake transport is compromised by the unsuitability of much of the sailing fleet. Investment is required to improve infrastructure, including the construction of jetties, at some of the ports. River transport provided a barge service all the way to Chinde on the Mozambican coast before being stopped by the Mozambican civil war. The investment required to reinstate this service would be significant, but it could contribute to diverting some of the excessive Beira road traffic.

Transport costs are by far the single largest expenditure factor for Malawian farmers. For example, in 2004, transport costs accounted for 46 per cent of the landed cost for urea in Lilongwe and one-third of the retail price paid by farmers. Nearly one-third of the pump price for fuel in Malawi can be attributed to transport costs. While Malawi is an efficient producer of sugar, regional and international transport costs add nearly 50 per cent to production costs for Malawian sugar. Logistical bottlenecks along the Nacala and Beira rail routes have resulted in nearly 60 per cent of Malawi's tobacco exports being sent overland to the more distant port of Durban. The government of Malawi is tasked with the formidable challenge of improving both internal transportation and external links in a context of severe budget constraint. It is clear that it will need foreign assistance and the involvement of the private sector to improve the capacity of the transport sector.

Political and Social Context

The latest presidential election was held on 20 May 2004, which voted in the current president who had campaigned as a United Democratic Front (UDF) candidate. However, since coming to power, President Bingu wa Mutharika has faced severe opposition within his own party, allegedly over his stance on corruption. He consequently left the UDF to found his own Democratic Progressive Party, which, however, has no seat in parliament. It is prohibited for a deputy to cross the floor in this manner in between elections in Malawi. Moreover, no party has a clear majority in parliament. This puts the president of Malawi in the awkward position of having to fight for support on every single issue, which has resulted in a hung parliament, making it difficult for the president to implement the current reform programme or government policies. Hence, only four acts of parliament have been passed since the new government took over. Parliament has failed to approve the budget on time.

This political fight culminated in October 2005 with more than 50 members of parliament signing a petition ordering the president to appear before court for impeachment hearings. The impeachment hearings were temporarily halted by the constitutional court. The general conflict in parliament between the political parties and the president have increased Malawi's risk profile internationally and increased the cost of borrowing as the Berne Union credit rating dropped one level.

Civil society is strengthening in Malawi but is still considered weak. A culture of not speaking out against the government was prevalent during Banda's rule. Many civil society organisations and networks educate the public about their rights and responsibilities and in how to interact with government. Recently civil society groups have been monitoring the government's budget and pro-poor expenditure (PPEs). The Civil Society Agriculture Network (CISANET) includes about 50 organisations that monitor three PPEs: agricultural inputs, agricultural extension, and small-scale irrigation. CISANET wants monitoring and evaluation systems implemented in communities so that information will be available to district and central offices of the agriculture ministry. CISANET also participated in monitoring the budget.

In the 2004 and 2005 Transparency International Corruption Perceptions Index, Malawi scored 2.8 and ranked 93rd out of 145 countries. This ranking is comparable with countries in the region such as Mozambique (2.8), Tanzania (2.8), and Zambia (2.6). Unfortunately, Malawi's score has deteriorated since 2000, when it had a CPI rating of 4.1. However, there is ground for optimism. The new government has declared a policy of zero tolerance on corruption and has already taken steps to enforce this policy. The Anti-Corruption Bureau (ACB) was strengthened in early 2004 through an amendment to the Corrupt Practices

Act. It is now required that cases referred to the Director of Public Prosecution, but that are not prosecuted, be reported to Parliament. The ACB is very active and has not been afraid to prosecute high-profile individuals. The minister of education was dismissed because of misappropriated funds. There is progress in the audit of domestic arrears. The passage of legislation to strengthen financial management will contribute to a more efficient government. In November 2005, an electronic central payments system came into operation whereby all financial transactions are verified and paid through the office of the Accountant General.

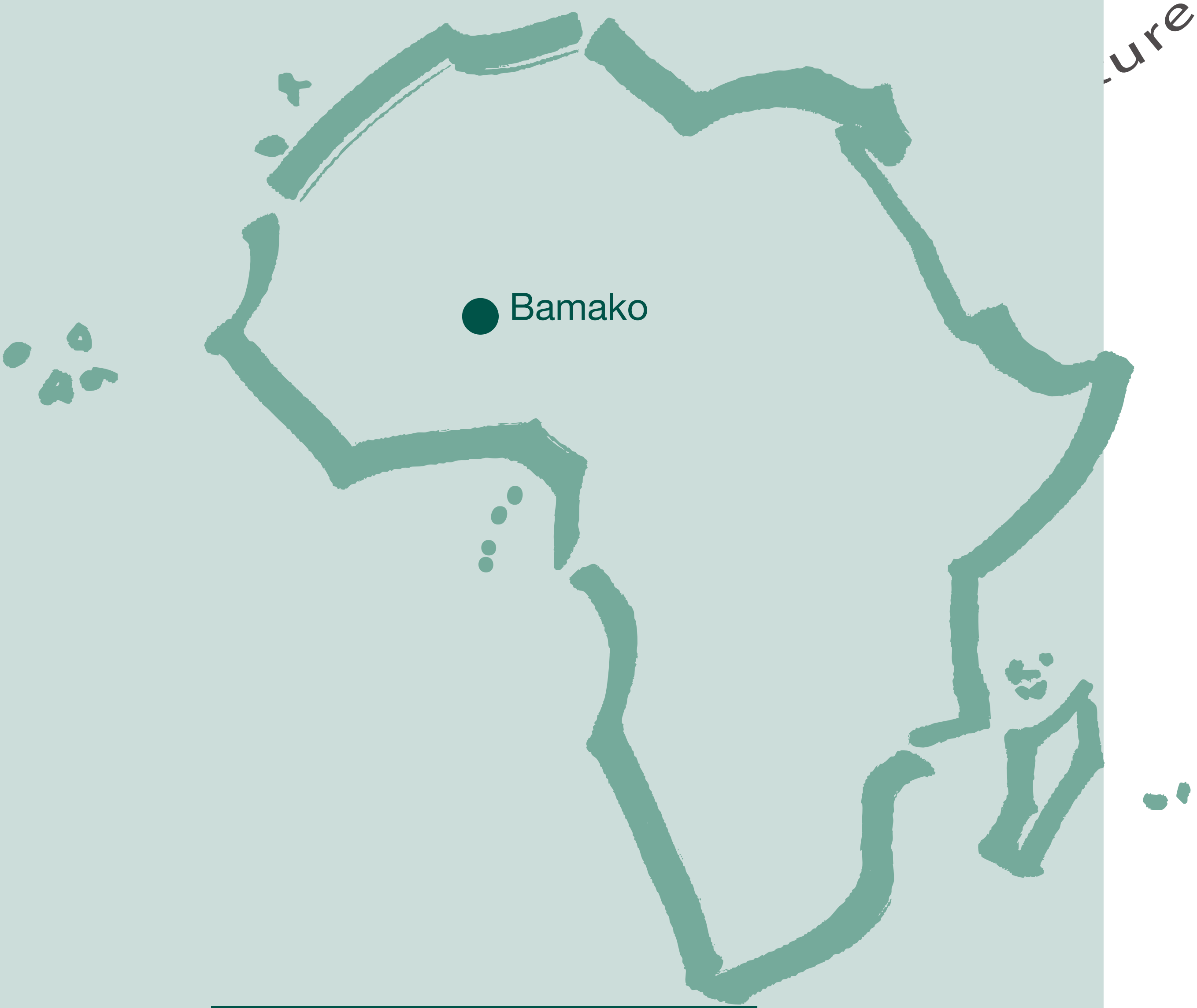
The national adult literacy rate is still low at 63 per cent. It is higher among males (76 per cent) than among females (50 per cent). The overall youth literacy rate is 76 per cent, which is far higher than the adult literacy rate. Interestingly, there is not much disparity between the literacy of young females and males. The primary gross enrolment ratio is 137 per cent. The rate is significantly higher for boys (144 per cent) than for girls (130 per cent). These high enrolment numbers indicate that a large proportion of primary school pupils are over-age for their grade. This could partly be explained by delayed enrolment, and high dropout as well as high repetition rates.

The 2004 Malawi Demographic and Health Survey found that 8 per cent of children aged 5 to 14 worked for non-household members. About 40 per cent of these children work without pay. Among children who help around the house with household chores, 68 per cent do these chores for an average of less than 4 hours per day and 2 per cent work for 4 or more hours per day. Overall, older children and children in rural areas are more likely to be working. Girls are more likely than boys to do domestic work. It is particularly worrying that a recent ILO (International Labour Organisation) survey found that at least 71 per cent of children were employed in the worst form of child labour.

Malawi, like the rest of southern Africa, has very high levels of HIV prevalence. HIV prevalence at rural clinics increased from 12.1 per cent in 1999 to 14.5 per cent in 2003. Much remains to be done in order for behavioural change to take place. In 2004, only 5 per cent of women and 15 per cent of men who had sex in the past year reported having used a condom during their last sexual intercourse with any partner. At 1.8 per cent, condom use is alarmingly low among married women. This may point to the difficulty women face in negotiating the use of a condom with their husband. Better-educated persons are more likely to use condoms. For example, while 2 per cent of women with no education used a condom during sex with their last partner, the corresponding proportion for women with secondary or higher education is 14 per cent. The proportions for men are 6 and 27 per cent respectively.

The total fertility rate for women aged 15 to 49 has declined from 7.6 births per woman twenty years ago to 6 in 2004. Contraceptive use, especially modern methods, has continued to rise since the early 1990s and is one of the principal causes of the fertility decline. The prevalence of modern contraceptive methods among married women aged 15 to 49 has increased from 7 per cent in 1992 to 33 per cent in 2004. The most popular contraceptive method among married women is injectables, followed by female sterilisation, and the pill.

Mali



key figures

• Land area, thousands of km^2	1 240
• Population, thousands (2005)	13 518
• GDP per capita, $ PPP valuation (2005)	968
• Life expectancy (2000-2005)	47.8
• Illiteracy rate (2005)	70.5

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/451805363676

Mali

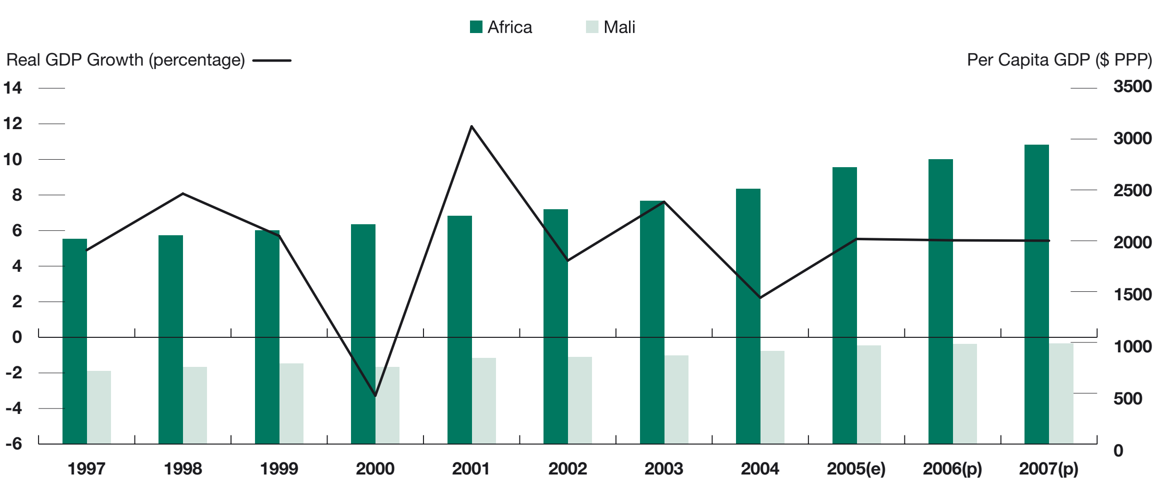
MALI RETURNED TO A STRONGER 5.5 per cent growth rate in 2005 after 2.2 per cent in the previous year. This figure, close to the average 5 per cent experienced over the 1994-2004 period, is marked by a catch-up effect in relation to 2004, which was an atypical, difficult year. The vulnerable and erratic nature of Malian economic growth is due to exogenous factors such as rainfall, fluctuating international market prices for its principal export products (cotton and gold), rising hydrocarbon prices and regional instability caused by the Ivorian crisis. In this situation, Mali has not met the convergence criteria of the West African Economic and Monetary Union (WAEMU). At the same time, an improvement in its economic performance is expected in 2006-07, following a good cotton season and a rise in gold production and cereals exports. The pursuit of institutional and structural reforms remains the priority.

Mali continued to implement its strategy of diversification of its economy to achieve durable and balanced growth in 2005. This strategy mainly concerns agriculture, with the particular aim of reducing dependence on cotton. It seeks also to develop mining activities as existing reserves start to run out. In this context, the government has adopted a new investment code, set up a one-stop investment shop and set up concertation structures to improve the business climate. The high cost of factors and an insufficiently developed financial system penalise the Malian private sector and foreign investment, however.

Greater diversification of the economy is needed for the current economic recovery to be sustainable.

With 7 000 km of common border with seven countries[1], Mali has made combating the disadvantages of its land-lacked position a priority. Having been forced to accelerate this process by the Ivorian crisis, it is diversifying its transport corridors through the construction of routes linking itself to main West African ports like Dakar, Tema, Lomé, Conakry, Nouakchott and Cotonou, in addition to Abidjan.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and local authorities' data; estimates(e) and projections(p) based on authors' calculations.

1. Algeria, Mauritania, Senegal, Guinea, Côte d'Ivoire, Burkina Faso and Niger.

Mali reaffirmed its role on the West African political scene in 2005, playing the role of mediator in regional crises and advocate of stronger relations with its neighbours, but also, by virtue of its position as prime mover in the cross-frontier initiatives programme of the Economic Community of West African States (ECOWAS)[2]. On the domestic front, the process of democratisation is advancing, thanks to reforms aimed at improving resource management and reinforcing decentralisation. Social tensions have appeared, however, around salary and employment claims. The Millennium Development Goals overall are out of reach overall but progress has been registered, notably in education. Social questions, the impact of privatisation and the economic and security consequences of the Ivorian crisis dominate the political debate as the country moves towards the elections programmed for 2007.

Recent Economic Developments

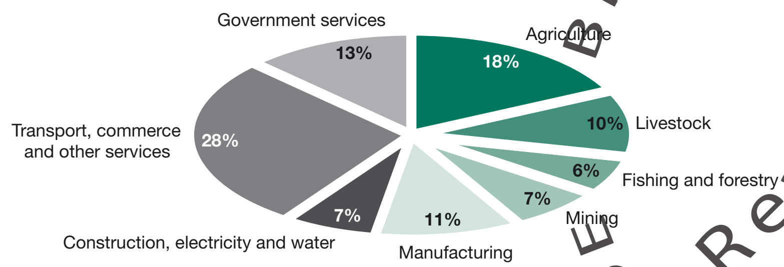
The primary sector, which provides work for close to 70 per cent of the active population; represented 34 per cent of GDP in 2004, less than in 2003. The main reasons for the fall were difficulties in the cotton sector and a poor cereals harvest. Thanks to adequate and well-distributed rainfall, the sector performed better in 2005, achieving an estimated growth rate of 10 per cent.

In Mali, cotton cultivation involves 200 000 family farms and a total 3.3 million people and accounts for 8 per cent of GDP formation. The sector is organised in an integrated manner by Compagnie Malienne pour le Développement du Textile(CMDT). Its task is to intervene along the whole chain of production, processing and marketing, while at the same time encouraging rural development through the provision of infrastructures and social services in the Sikasso, Koulikoro, Ségou and Kayes production zones. In the 2005-06 season, 174 749 hectares were given over to cotton cultivation, which is to say 1 per cent more than in the preceding season. Cottonseed production is expected to reach 600 100 tonnes, compared with the 589 751 tonnes marketed in 2004-05. The experts say that the increase is unexpected, given a reduction in the basic price paid producers, which is down from 210 CFA francs/kg in 2004-05 to 160 CFA francs/kg following the introduction of a new price-fixing mechanism in January 2005. The latter gives priority to changes in international prices rather than to production costs and the price of cotton in relation to that of cereals. The long depression in international cotton prices, which are below production costs, weighed on cotton marketing. As a result, 2005-06 production is swelled by unsold production from the previous season. In 2004-05, CMDT subsidised producers and left itself with a deficit of 68 billion CFA francs, of which 28.2 billion CFA francs was covered by the state. Without the price reduction negotiated at the start of the 2005-06 seasons, CMDT would have suffered new losses which would in turn have had a considerable impact on the state budget.

Cotton cultivation plays a structuring role in the production system. It enables the agricultural sector to diversify into cereals cultivation, which is linked to it by crop rotation and the fact that it used the same inputs and phytosanitary products. In 2005-06, dry cereals production, mainly corn, millet and sorghum, is expected to increase to 3 million tonnes, compared with 2.5 million tonnes in 2004-05, thanks to good rainfall. Mali's cereals production exceeds its own food needs but is unevenly distributed on the country's markets. Production zones bordering on Burkina Faso, Côte d'Ivoire and Mauritania are better linked to cross-border markets than to the rest of Mali, given the country's size and the inadequacy of its transport infrastructures. Following a tense food supply situation in 2004, it is clear that an improvement in domestic transport links is a necessity if food security is to be guaranteed over the whole country. Rice production is expected to reach 900 326 tonnes in 2005-06, its highest level in three years.

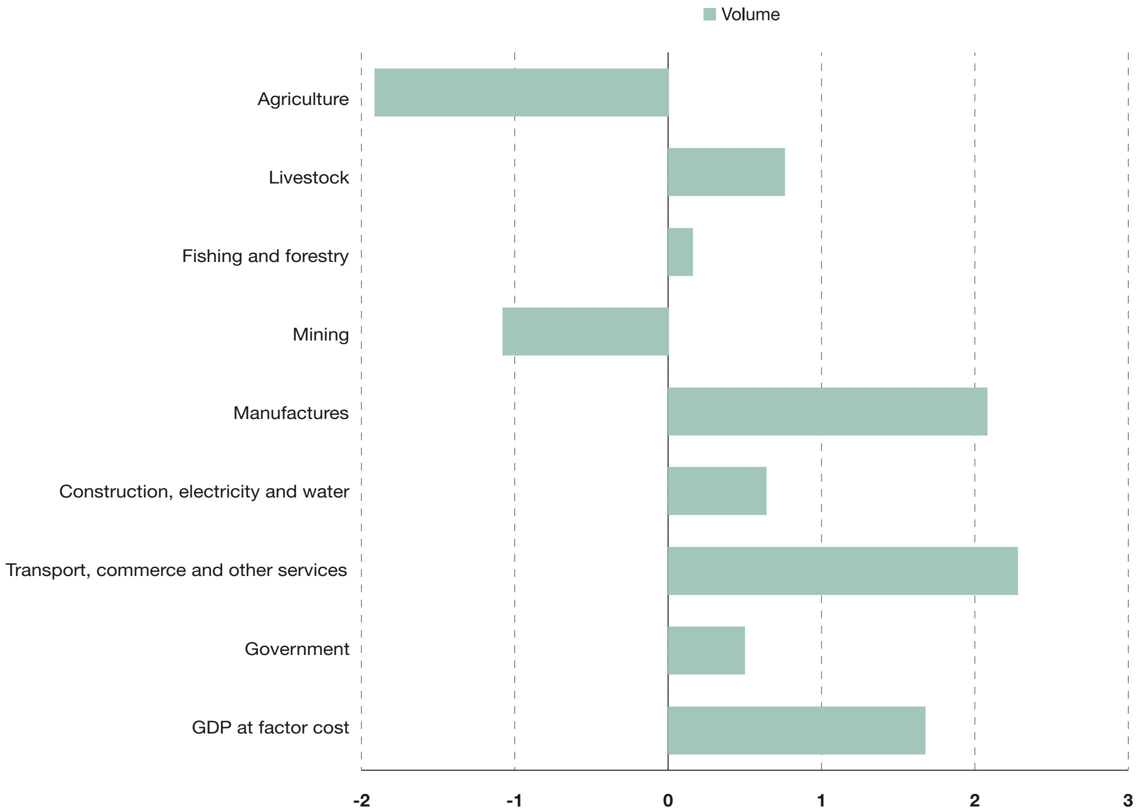
2. Cross-border co-operation became an official part of the community's agenda through the adoption on 18 January 2005 by the ECOWAS council of foreign ministers in Accra of a memorandum entitled "The Concept of Border Country or the Integration of Proximity". The cross-border initiatives programme is the *modus operandi* of the community's policy of cross-border co-operation.

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on Direction Nationale de la Statistique et de l'Informatique data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)

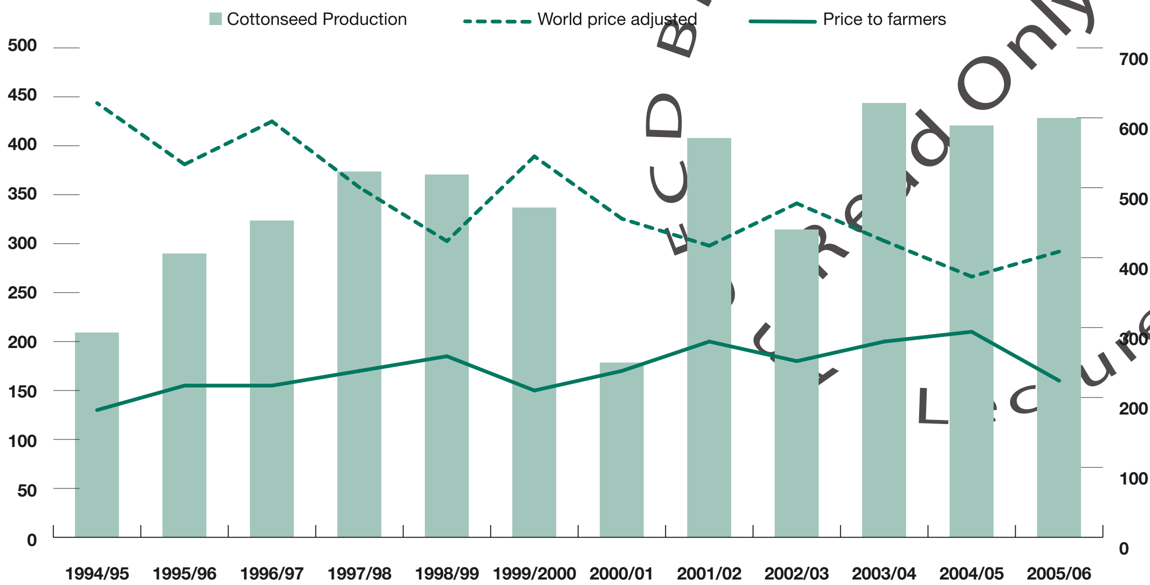


Source: Authors' estimates based on Direction Nationale de la Statistique et de l'Informatique data.

Production is concentrated in the region covered by the Office de la Haute Vallée du Niger (OHVN), where there is major unexploited potential. Out of a total irrigable area of 1 million hectares, only 80 000 hectares are currently equipped.

Seventy five per cent of cotton and cereals production is carried out using animal-driven methods. This stimulates stock breeding, which is transhumant by tradition, and integrates into a unique agro-pastoral system. In 2005, stock breeding contributed to 10 per cent of GDP formation, making it the third biggest export sector after gold and cotton. The main destinations for cattle exports are neighbouring countries since the bulk of animals are exported on foot. But the crisis in Côte d'Ivoire and difficulties in transporting

Figure 4 - **Cotton Production and Prices in Mali**



Note: Production and prices to growers apply to cottonseed on a seasonal basis. The international price refers to cotton fibre. It has been converted into cottonseed equivalent at a conversion rate of 42 per cent and calculated as a calendar year average (year n+1 for a season in n/n+1).
Source: Direction Nationale de la Statistique et de l'Informatique and World Bank data.

animals by rail to Senegal have emphasised the importance of finding outlets outside the region. That would result not only in greater fluidity on transport routes but would also help to promote meat and milk processing activities. At present, although it produces 600-800 tonnes of milk per year, Mali imports milk worth 15 to 20 billion CFA francs each year.

Overall, the agricultural sector has a low productivity level because of the lack of specialisation of the labour force. This also blocks development of product processing. The rural economy is little diversified and dependent on export products with little added value. The situation is aggravated by the undeveloped state of the rural infrastructure network which provides only limited access to urban markets. Under the terms of the new agricultural orientation law of October 2005, a programme to improve agricultural competitiveness and diversification was launched. The objective is to eliminate obstacles to the development of commercial activities in the agricultural field in those areas in which Mali has a comparative advantage and real market opportunities. This programme provides for wider diffusion of technological know-how with a view to improving the production, productivity, processing and marketing of selected products. It also aims to improve the performances of targeted activities, as well as access to financing and the development of infrastructures giving access to markets. Twenty three activities have been identified, of which 13, including tomatoes, mangos, potatoes and green beans, are being given priority on the grounds that they offer particularly good prospects. A Mali label could be considered for these products. A project to exploit the potential for sugar production in the OHVN area has attracted the interest of the Malian private sector. A plant with an annual production capacity of 150 000 to 170 000 tonnes is to be set up with financing from American and South African investors, including the Schaffer group of the US.

Over a 10-year period, Mali has become Africa's third biggest gold producer after South Africa and Ghana. Gold was the country's leading export product in 2004 and contributed 7 per cent to the formation of GDP. Production fell to 44 tonnes in 2004 but is expected to return to the 2003 level of 52 tonnes in 2005. The government is counting on growth of 6 per cent in 2006 Following the start of production at the

Loulo gold mine in 2006, 42 tonnes of additional reserves have become available. Since the beginning of 2005, the steady increase in gold prices (they rose 16.2 per cent in CFA francs between January and September) can be expected to have a positive effect on the trade balance and on fiscal and non-fiscal revenue collection. The Sadiola, Moila and Yatéla mines, which are exploited by the South African company Randgold, are starting to become exhausted but 600 tonnes of reserves have been identified in the Kayes and Sikasso regions. Following adoption of the WAEMU code at the end of 2003, the Malian mining code is being revised. It creates incentives to attract new investors and encourage exploitation of other metals and phosphates. At the same time, the development of small-scale mining is being sought as a way of boosting the impact of gold mining on the local economy. As for oil, exploration prospects are confined to the north west, east central and west central regions. Four-year prospecting licences have been granted to Australian and Canadian companies.

The mining industries apart, the secondary sector has a marginal but growing position in the Malian economy. It represented 17.9 per cent of GDP in 2004, an increase of 14 per cent over 2003. In manufacturing industry and particularly agro-food, as in energy and construction, the major obstacles to industrialisation are high factor prices, notably for land and electricity, a poorly qualified labour force, a little developed financial sector and poor transport links between industrial zones and their main markets. All these problems contribute to a low company creation rate.

The Fitina spinning factory, which is today closed, had difficulties from its opening in 2002. The equipment imported was held up for a long time in the port of Abidjan by the Ivorian crisis. Unable to meet its commitments, Fitina lost its Mauritian outlet. Reopening the plant is considered to be an urgent strategic objective which would boost local cotton processing. Such difficulties of the moment apart, however, the future of the textile sector also depends on the advantages offered by agreements like the US's Africa Growth and Opportunity Act, which has yet to produce significant results.

After a long period of preparation, feasibility and opportunity studies for a cement plant construction project have been completed. Using local limestone deposits, the plant's production would partly replace imported construction materials. National demand for cement is estimated at 1 million tonnes but is today met wholly through imports. Guarantees and suitable partnership terms with the state now need to be sought as the next stage of the project, which has the backing of the West African Development Bank.

Driven by the dynamism of the transport and telecommunications sub-sector, the tertiary sector increased its contribution to GDP from 39.2 per cent in 2003 to 40.2 per cent in 2004. The development of the mobile phone and GSM networks run by Malitel and Ikatel should be particularly noted.

The strategy adopted by the government, with World Bank support, for diversifying sources of growth in the Malian economy considers tourism, new information technologies and communication as promising sub-sectors. Lack of adequate infrastructure is a major constraint, however. The three main sources of growth in the tertiary sector are transport, telecommunications and trade. Banking and insurance services, on the other hand, accounted for only 0.8 per cent of GDP in 2004. The share of the informal sector in the contribution of transport and trade to GDP formation is preponderant. Trade is migrating towards China, particularly Hong Kong, Shanghai and Pekin, while Chinese operators are increasingly moving into the distribution sector in Mali. This trade covers textiles and plastic products but also spare parts and two-wheeled transportation. Two major challenges in these trades, however, are the need for surveillance of the sometimes uncertain quality of some imported goods and for administrative supervision to prevent this trade escaping customs duties.

After a difficult year in terms of economic performance, uncertainties over 2005 have been dissipated, with a growth rate of 5.5 per cent expected. This figure, however, includes a catching up effect in relation to 2004, which should disappear in 2006. Growth prospects for 2006 and 2007 are seen at 5.5 and

Table 1 - Demand Composition (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**22.7**	**18.4**	**26.2**	**18.5**	**19.0**	**19.4**	**19.6**
Public	7.0	7.6	7.6	7.8	8.0	8.1	8.1
Private	15.6	10.9	18.6	10.7	11.0	11.3	11.4
Consumption	**85.2**	**82.5**	**81.7**	**87.6**	**88.5**	**86.9**	**87.0**
Public	18.5	16.2	18.2	18.9	20.5	20.7	20.5
Private	66.7	66.3	63.4	68.8	68.0	66.2	66.6
External sector	**-7.9**	**-0.9**	**-7.8**	**-6.1**	**-7.5**	**-6.3**	**-6.6**
Exports	23.0	29.0	23.6	25.6	25.1	26.4	25.1
Imports	-30.9	-29.9	-31.4	-31.7	-32.6	-32.6	-31.7

Source: Direction nationale de la statistique et de l'informatique data ; estimates (e) and projections (p) based on authors' calculations.

5.4 per cent respectively. Satisfactory agricultural performances, increasing gold production and new infrastructures to open up the domestic market to the wider region are the cards Mali can play to encourage growth. Progress in institutional and structural reform remains nevertheless indispensable to consolidate these results in future.

With regard to demand, the 2005 food crisis had a negative impact on household consumption. The increase in the fiscal deficit in 2004 over 2003 mitigated the fall in the growth of internal demand. Following a fall in private investment in 2004, which resulted from the fall in agricultural and gold production, a recovery is expected in 2005 and 2006. There will be a visible increase in investment in both the public sector via development of social and transport infrastructures and the private sector in the form of new gold production sites. An improvement in the external balance is expected in 2006, reflecting an increase in the volume of gold exports, which will compensate for the importation of capital to finance investment in this sector. The increase was confirmed in 2005, which should open the way to an improvement in the fiscal position in 2006 and 2007.

Macroeconomic Policies

Fiscal Policy

In 2004, Mali respected four of the five main criteria and two of the secondary criteria in the convergence, stability, growth and solidarity pact of the WAEMU. Because of budgetary difficulties, caused by an increase in expenditure which outpaced revenue growth, compliance with these criteria deteriorated in 2005. Not only the basic budget balance against GDP remained negative but also the annual inflation rate rose to 5 per cent, whereas the ceiling fixed by WAEMU is 3 per cent. On the basis of expected results, a recovery in convergence criteria is expected in 2006. Inflation, in particular, should return to under 2 per cent. The erratic inflation curb can be explained by the steady rise, until the last quarter of 2005, of food prices, which represent 50 per cent of the formation of the consumer price index, ahead of oil. The arrival on the markets of the first cereals from the new crop should slow down this trend.

The two secondary criteria not fulfilled in 2004 were a current external balance deficit excluding grants of less than 5 per cent and a minimum fiscal pressure level of 17 per cent. They illustrate the principal difficulties of the Malian economy: exports subject to fluctuations in international prices and a limited tax base. Although it is below the WAEMU ceiling, Mali has a fiscal pressure level of 15 per cent, which is among the highest among member countries. Fiscal receipts are nevertheless insufficient and an enlargement of the tax base, notably through the elimination of *ad hoc* exonerations and the adoption of measures to bring informal sector operations into the formal economic sector, are among the key objectives. Fiscalisation of the agricultural sector is also planned as a measure to accompany the new agricultural orientation law. The

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**19.9**	**20.1**	**22.0**	**22.3**	**23.4**	**24.7**	**25.2**
Tax revenue	12.5	13.4	14.3	15.7	16.4	16.8	16.5
Grants	5.3	3.8	4.7	4.1	4.6	5.5	6.3
Total expenditure and net lending[a]	**22.9**	**23.8**	**23.3**	**25.0**	**27.6**	**27.3**	**26.9**
Current expenditure	12.3	15.0	14.5	15.7	16.7	16.4	16.1
Excluding interest	*11.4*	*14.2*	*13.7*	*15.0*	*16.0*	*16.0*	*15.9*
Wages and salaries	3.6	4.1	4.3	4.9	4.9	4.9	4.9
Interest	0.9	0.8	0.8	0.7	0.7	0.4	0.2
Capital expenditure	9.9	8.9	9.0	9.7	9.9	10.1	10.1
Primary balance	**-1.1**	**-2.9**	**-0.6**	**-2.0**	**-3.3**	**-2.1**	**-1.5**
Global balance	**-2.0**	**-3.7**	**-1.3**	**-2.7**	**-4.0**	**-2.6**	**-1.7**

a. Only major items are reported.
Source: IMF and Ministry of Economy and Finance data; estimates(e) and projections(p) based on authors' calculations.

government intends to meet the fiscal pressure convergence criterion by 2007.

The major difficulties experienced in the execution of state financial operations in 2005 were caused partly by a loss of revenue from cotton exports and the cost of covering of CMDT's deficit on the 2004-05 season and partly by tax exonerations granted on new vehicle imports and a reduction in domestic taxes on oil products (TIPPE), aimed at attenuating the impact of the rise in oil prices. Sixty thousand tonnes of imported rice were also exempted from VAT as a means of heading off the risk of a food crisis in the spring of 2005. These difficulties were exacerbated by delays in disbursement of external resources by donors, caused by uncertainty in 2005 over the timetable for privatisation of CMDT. These negative factors should be partly counterbalanced by the good performance of the gold sector, a major source of fiscal revenue and dividends, in terms of both production and export value. Delay in the payment of dividends by the mining companies is nevertheless responsible for the low level of collection of non-fiscal revenue, which stood at 33.3 per cent in August 2005. The fact remains that fiscal revenue increased in 2005, principally because of more rigorous control over exonerations, reinforcement of efforts to combat fraud and continuing computerisation. These measures were applied to both direct and indirect taxation.

Current and capital spending increased, according to estimates. The reason for the increase is an increase in spending in social sectors and an improvement in the level of realisation of public investment programmes in line with the objectives of the Strategic Framework to Fight Poverty (SFFP). This spending also reflects growth in public sector salaries to compensate for the increase in inflation in 2005. Taking into account these changes and the financing of the deficit of CMDT by the state, the global deficit is expected to deepen to 4 per cent. Nevertheless, an improvement in the global balance should be possible in 2006, thanks to consolidation of the fiscal position (under the effect of the reforms under way, fiscal revenue should total 16.8 per cent of GDP) and capital expenditure financed by aid, notably for infrastructures.

The objectives fixed by the SFFP were adopted in the 2006 finance law, which highlights the government's commitment to pursuing and extending its reforms on the basis of three priorities: improvement of governance, human development and access to basic social services, and development of infrastructures.

Budget support, as a pre-eminent instrument of international co-operation, is at the forefront of economic strategy in Mali in 2006. This strategy was accepted by the country's partners at the round table meeting which took place in Geneva in March 2004. On this occasion, donors agreed to provide 75 billion CFA francs, of which 33 billion CFA francs mobilised immediately. Budget support agreements are in the process of being signed between the Malian government and the country's development partners. In October 2005, Mali and the Netherlands concluded an agreement of this type for 6.56 billion CFA francs. The second strategy line in the 2006 finance law consists of implementation of a programme for institutional development, involving a complete reform of public administration on the basis of five strategic objectives: reorganisation of the central services of the state and reinforcement of public management capacities; consolidation of decentralisation; greater recognition of the role of local authorities in the promotion of development; reinforcement of human capacities. The third strategy line concerns execution of a programme to modernise and improve public finances, based on a streamlining of central control of budgetary procedures and public contracts.

Monetary Policy

As a founding member of the WAEMU, Mali respects the monetary policy fixed by the Central Bank of West African States (BCEAO), which is directed towards the double objective of stabilising prices and respecting the criteria for convergence, stability, growth and solidarity within the union. Since the last rate reduction in March 2004, the discount and pension rates have been maintained at 4 and 4.5 per cent. Taking into account the increase in bank liquidity and growth in credits to the economy, the BCEAO judged it necessary to increase the coefficients of obligatory reserves in certain member countries to prevent inflation. In Mali, the fall in the general price level in 2003-04 meant that no increase was necessary and the coefficient stayed at 9 per cent. Between 2003-04 and 2004-05, however, the level of credit to the private sector fell from 20 per cent to 5 per cent. This fall illustrates the difficulty for the banks in diversifying their investments outside the cotton sector. To ensure control over the excessive liquidity in Malian financial establishments, the monetary authorities are aiming to improve the performance of the banking sector through audit procedures.

At the start of 2005, the tendency for prices to fall was reversed as a result of the poor agricultural season and the increase in energy prices. In September, Mali recorded its highest inflation rates of the last 10 years – 11.5 per cent, comprising 22.5 per cent for food products and 2 per cent for all other products. The annual inflation rate reached 5 per cent, compared to -2.8 per cent in 2004. By October, inflation had fallen again, following the arrival on the markets of the first food products from the 2005-06 season, which promises to be positive.

External Position

The euro-dollar exchange rate and rainfall plays a fundamental role in the competitiveness of Malian products, as well as in production levels. Because it is landlocked, Mali is also sensitive to the political and economic stability of neighbouring countries. The country took the full brunt of the negative effects of the Ivorian crisis, with a fall in exports of live animals, restrictions on imports through the port of Abidjan and a fall in transfers from Malians resident in Côte d'Ivoire. Trade between the countries did not cease, as is demonstrated by the fact that part of Mali's last cotton crop was exported via the Sikasso-Bouaké-Abidjan corridor. Nevertheless, the situation in Côte d'Ivoire led to a reorientation of Malian trade towards other countries with ports, principally Senegal and Ghana but also Mauritania, Guinea, Benin and Togo(for oil products). This change could have major structural effects on the Malian economy by encouraging local processing of the products of certain activities such as livestock, fruit and vegetables with a view to exporting them in the sub-region. Availability of adequate infrastructures to serve these markets is nevertheless an essential condition.

The difficulties of the primary and mining sectors in 2004 resulted in a slowdown in the growth of total export revenue, which in turn led to a trade deficit amounting to 2.5 per cent of GDP. It is likely that this deficit will increase to 3.6 per cent under the effect of the increase in the value of imports of oil products, which rose from 152 billion CFA francs in 2004 to 212 billion CFA francs in 2005. Imports will continue to increase during the 2006-07 period, reflecting the need to finance investment in the mines and infrastructures. The trade balance should improve nevertheless as a result of an increase in gold exports of 6 and 7 per cent respectively in 2006 and 2007.

Malian trade policy at the moment aims to improve the prospects for cotton exports. With such other African producer countries as Benin, Burkina Faso and Chad, Mali is promoting a sectoral initiative in favour of cotton, which was launched on the eve of the World Trade Organisation (WTO) conference in Cancun in 2003. With a view to the negotiations in Hong Kong at the end of 2005, the four countries fixed a common strategy under the terms of the N'Djamena Appeal of November 2005 to obtain a "rapid, ambitious and specific" treatment of the cotton issue within the WTO. They proposed totally eliminating subsidies in the short term, a substantial reduction in domestic aid by 2009, creation of an emergency fund to deal with deficits caused by a fall in cotton prices and more technical and financial assistance for the development of the sector in Africa. The Hong Kong conference came up with a compromise providing for the elimination of subsidies on agricultural exports from OECD countries by 2013 and on cotton by 2006. The agreement provides among other things for the abolition of customs duties and quotas imposed on cotton imported from less advanced countries. These results do not displease the Malian authorities on condition that they are properly implemented and that negotiations continue in 2006. Some organisations are sceptical, however, considering that the abolition of customs duties is the prelude to an agreement on a general drop in customs tariffs in 2006, the negative effects of which will weigh principally on the economies of developing countries.

According to BCEAO forecasts, the balance of services deficit should diminish in 2005 from the previous 148 billion CFA francs to 133.6 billion CFA francs. Because of Mali's landlocked position and its geographical size, the transport account showed a growing deficit, which rose from 151.6 billion CFA francs in 2004 to 164.7 billion CFA francs in 2005, demonstrating the strategic importance of developing infrastructures. At the start of the Ivorian crisis, a fall in the number of Malian migrants was registered. This phenomenon is now having less effect, however, on current transfers, which rose from 121.6 billion CFA francs in 2004 to 139.2 million CFA francs in 2005. The number of temporary returns which become definitive will have an influence on current transfers in 2006 and beyond. This budget line is particularly important for the balance of payments, as can be seen from the history of Malian migration in Africa and elsewhere.

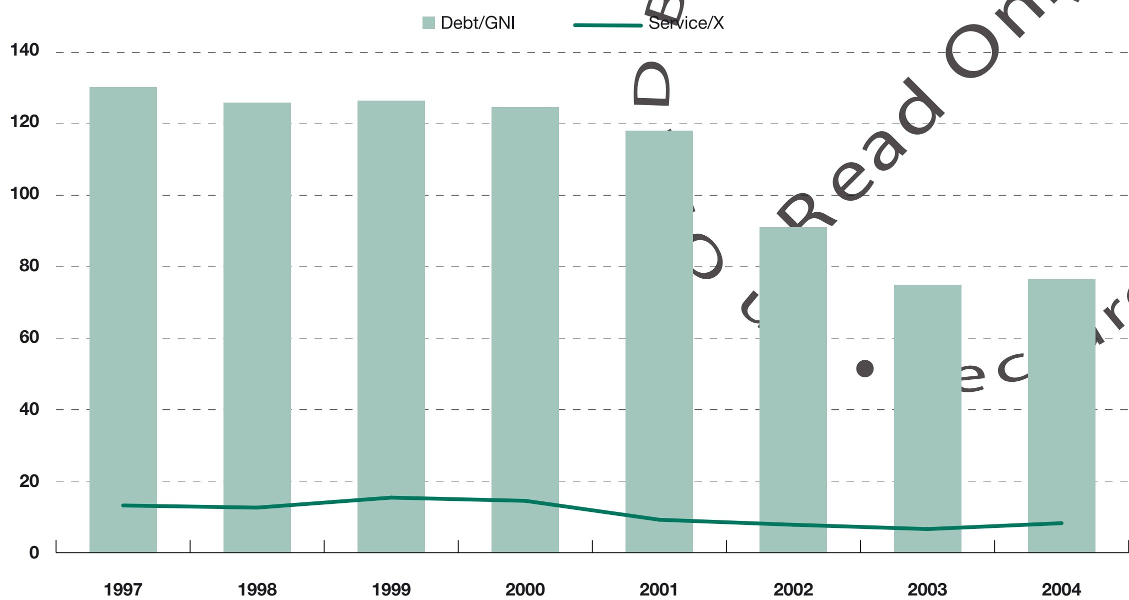
After having fallen in 2003, direct foreign investment increased again to 27.6 billion CFA francs in 2004 and 36.4 billion CFA francs in the first quarter of 2005, even if they are still at a lower level than the economy requires. Non-traditional partners such as China and, to a lesser extent, India are starting to play an important role as providers of investment. This investment is generally directed into energy, telecommunications and construction. It is contributing as much as the Ivorian situation to the reorientation of Malian trade. This reorientation is at present a trend which it is difficult to evaluate in quantitative terms. Although it has not yet produced major changes in export and import structure, it reflects structural changes

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	0.6	5.0	-1.4	-2.5	-3.6	-2.4	-2.8
Exports of goods (f.o.b.)	20.8	26.8	22.1	20.6	20.7	22.0	20.8
Imports of goods (f.o.b.)	-20.2	-21.8	-23.5	-23.0	-24.3	-24.4	-23.6
Services	-10.0	-6.7	-6.1	-6.1			
Factor income	-1.5	-5.5	-7.4	-3.8			
Current transfers	4.7	4.5	4.9	4.1			
Current account balance	**-6.6**	**-4.6**	**-6.4**	**-8.6**			

Source: BCEAO and IMF data; estimates (e) and projections (p) based on authors' calculations.

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



Source: IMF and World Bank.

which need to be followed to better understand the country's development prospects in the medium term.

At the end of 2004, total medium- and long-term external debt before relief stood at 1 705.2 billion CFA francs, of which 74 per cent in the form of multilateral debt. The ratio of debt to gross national income (GNI) has been falling since 2002 and should stand at 76.5 per cent in 2004. Debt and interest repayment should fall by 3.1 per cent in 2006 to reach 80 690 billion CFA francs.

Mali reached completion point under the Heavily Indebted Poor Countries (HIPC) Initiative in February-March 2003. Since then, the annual level of resources disbursed has been satisfactory. In 2004, the realisation level was 97.3 per cent and corresponded to 28.8 billion CFA francs. A downward trend in HIPC resources for financing projects in the social sector is starting to be seen even though spending is stable and even growing. In 2006, for the first time, HIPC receipts will not be sufficient to cover planned expenditure - a problem which all the other countries benefiting from the HIPC Initiative will face in the years to come. Mali is one of the 18 countries which will benefit from a total cancellation of debt owned to the multilateral initiative decided at the G8 summit in Gleneagles in July 2005. In December, the International Monetary Fund announced that it was cancelling Malian debt accumulated before 1 January 2005.

Structural Issues

Recent Developments

In a context of weak growth in key economic sectors and persistent regional instability, Mali has pursued its reform programme. Results so far have been mixed, notably with regard to privatisations, but these reforms which aim to improve the economic environment have to be judged in terms of their impact in the long term.

The government considers the energy sector to be strategic in the fight against poverty and for the improvement of its economic competitiveness. The major difficulties are the low level of electrification at national level and high electricity costs. With $53.5 million financing over five years from the International Development Association, the World

Bank and the Global Environment Facility, the Malian agency for the development of domestic energy and rural electrification (AMADER), a national administration, began its programme in two parts. Over the 2005-09 period, it aims to achieve an electrification level of 10 per cent in the rural zones, rising in 20 years to 80 per cent, and, at the same time, to encourage sustainable development of timber resources through better control of domestic energy demand. To this end, the country has been divided into multi-sectoral electrification zones, which correspond to the main regions for gold, cotton and rice production, urban regions and those affected by emigration. The number of potential subscribers in these regions is currently being assessed. AMADER is responsible for providing technical and financial assistance to the different operators on the ground – private, national and international, as well as local authorities, NGOs and consortia – and for regulating the sector.

The success of the project risks being hampered, however, by the need for clarification regarding energy choice and the prospect of a new privatisation of Energie du Mali (EDM), following the withdrawal of its principal shareholder, the Bouygues group's Saur International, in October 2005. This withdrawal follows differences between the government and the private concessionaire, notably over tariffs. The differences also concerned the energy supply development plan and the investment required for it. Eighty per cent of electricity today is generated by hydroelectric power and the remaining 20 per cent by thermal energy. Thanks to Indian investment, the authorities intend to make increasing use of isolated thermal power station so as to increase energy availability in the most far-flung areas. This choice is contested by donors who fear the effects of an increase in oil prices on public debt and prefer interconnection with the Ivorian and Guinean grids, as well as exploitation of the hydroelectric potential of the Niger and Senegal rivers on the basis of the experience of the Organisation pour la Mise en Valeur du Fleuve Senegal (OMVS) set up by Mali, Senegal and Mauritania. The OMVS owns the Manantali dam. Via Sogem, in which the three countries are represented. It has put the management of its network in the hands of the South African electricity company Eskom and has an average production of 807 Gwh/year. Because production from Manantali is expected to peak in 2005-06, studies have been carried out with a view to making use of hydroelectric potential available via new installations at Félou, Guina and Kénie. These projects have been postponed because of lack of investment capital. Now that it has again become majority owner of EDM, the Malian state is seeking financing for these new installations. The European Union has shown interest in financing them by grants. There is a consensus on the fact that the return of the state as principal shareholder in EDM should only be temporary and offers the opportunity to reprivatise in 2006. Lease-type arrangements can be expected to be used subsequently to facilitate investment in these strategically important national projects.

In telecommunications, in contrast to the energy sector, competition between the two mobile telephone companies, Malitel, which belongs to the established national operator Sotelma, and Ikatel, a subsidiary of France Telecom, has produced a steady reduction in prices since the start of 2005. The two operators are engaged in a commercial war to extend their networks over the whole country. This was clearly demonstrated when Ikatel installed an optical fibre cable between Bamako and Kayes, to be followed by Malitel, which used the high tension electricity line between the two same cities to lay its own telephone cable.

The success of the cell network, the number of subscribers to which has exceeded that of the wired network, has created a problem of saturation in the capital. The arrival of a third operator in Bamako could be envisaged. Meanwhile, the opening of the capital of Sotelma to private operators, provided for by the 1997 privatisation and liberalisation plan, is expected to be completed by the end of 2006. The government has spent 5 billion CFA francs on restructuring the company. Syntel, the union for Sotelma employees, has been involved in this process with a view to reaching agreement on the redundancy programme which will accompany the privatisation.

The unions are also closely involved in the privatisation of CMDT. Originally planned for 2006, it has been put back to 2008. The reasons for this delay are the difficulties caused by the Ivorian crisis, the need to draw lessons from the privatisation experiences in other West African producer countries and the wish to prevent cotton becoming the major issue in the 2006-07 election campaign. A proposed new timetable was accepted by donors in November 2005. It should be brought into effect in 2006 via the identification of three or four zones in which the new cotton companies will be set up from 2008 on. Identification of these zones will be followed by realisation of an operating plan and creation of new regulatory structures. The government took the view that a regulatory framework needed to be a precondition of the start of the process. It wants, in particular, to see set up an autonomous body responsible for the classification of cotton fibre and seed (and thus pricing) and a cotton exchange and to ensure that the new cotton companies take over from the public service responsibility for training, public education and the structuring activities in rural areas. The cotton classification office will bring together representatives of the state, growers and ginners. Growers will be able to take stakes in the capital of the cotton companies with Malian and private sector operators. A major effort to strengthen the managerial and organisational capacities of the growers is planned with the support of France, the Netherlands and the World Bank, who will finance a global programme of support for the privatisation of CMDT by 2008. At the same time, the government, for its part, has been asked to appoint someone to take charge of the project, which involves different ministries in such fields as finance, agriculture, trade, planning, investment promotion and small- and medium-sized companies.

Beyond the specific concerns of the cotton sector, the process of drafting a new agricultural orientation law has resulted in adoption of a text which covers agricultural, pastoral, fishing and forestry activities, as well as natural resource management. It has three objectives: food self-sufficiency, modernisation of family farming and development of agro-industry. This process involves concertation with farmers at local, regional and national level. It is concerned at the moment with drafting the main lines of new land legislation. The agricultural law defines the role of each player in the agricultural system – farmers, professional representative bodies, chambers of agriculture, the state, local authorities and private sector agricultural service providers – and lays emphasis on the need for partnership and subsidiarity between them. Its objectives are pursued by, among others, the programme for agricultural competitiveness and diversification (PCDA) mentioned above, which benefits from a $47.5 million loan from the World Bank, which will be supplemented by financing from USAID, the Agence Française de Développement, the Canadian International Development Agency and Germany and the Netherlands. An important feature of the programme is the construction of rural roads to end isolation and make market access more fluid.

The PCDA is seen as a priority measure in the policy of development of the private sector defined in 2005. In it, the government details the indispensable features of its strategy for the promotion of investment and improvement of the factors of production by making the private sector the pivot for economic growth and sustainable development in Mali in line with the Strategic Framework to Fight Poverty. Specific measures to improve the business climate are being introduced in conjunction with the application of this policy.

Firstly, a new investment code was adopted in August 2005. It enlarges the scope for tax exemption, notably in the case of privatisations, for which investors can benefit from a 30-year exemption from all duties and tax connected with their activities. These tax allowances aimed at attracting investment sometimes involve a loss of revenue and risk having negative consequences on the economy over the long term. The code reinforces the incentives available to companies using raw materials and local consumer products and offers particularly favourable conditions to those which establish themselves outside the Bamako area or develop innovative technology. It provides, too, for foreign investors to have full rights to their wealth, including land, and to be able to repatriate their dividends and their capital if it comes from a foreign source.

Secondly, concertation between the government and private sector is being reinforced through the creation of opportunities for dialogue. An annual meeting between the president and the private sector is planned, as are periodic meetings with competent ministers. A presidential investment council, composed one third of Malian private sector operators, one third of foreign investors resident in Mali and one third of foreign investors not yet resident, is to be set up. Thematic meetings are to be held. Thirdly, a national agency for the promotion of investment (ANPI) is being set up to take over the activities of the existing national centre for the promotion of investment and the agency for the development of industrial zones. Its task will be to provide support for companies in Mali and to promote investment outside the country. Pending the opening of the ANPI, a one-stop registration centre has been brought into operation to reduce the cost and time needed to set up a company. The sector development strategy also provides for the creation of minimal infrastructures to support growth, including an extension of Bamako airport and the creation of zones offering competitive costs for such factors of production as energy, water, telephone and Internet.

To improve the business climate, reforms of the judicial and banking sectors are also planned, with priority going to the strengthening of human capacities and training. Better knowledge of efforts being made to harmonise African business law, notably through the Organisation pour l'Harmonisation en Afrique du Droit des Affaires(OHADA), is needed, as are more rapid judicial procedures. New financial products suited to the needs of Malian companies are required, as are solutions to the problems posed by bank guarantees. Despite their excess liquidity, Malian banks finance little long-term productive investment and do not meet risk diversification criteria. Constitution of a financial guarantee fund for the private sector to facilitate access to bank credit has not produced the expected results. Despite the involvement of the banks in the privatisation of the public sector electricity, telecommunications and railway companies, their main activities remain the provision of financing for the cotton sector and for food imports and exports. The state has minority holdings in the main Malian banks(20 per cent in BDM, 5 per cent in BCS and 30 per cent in BNDA). The exception is Banque Internationale du Mali, in which it has 62 per cent but which is in the process of being privatised. The situation of the Banque de l'Habitat du Mali was restored in 2005 through recapitalisation and recomposition of its board. BMD has completed the computerisation of its network and is pursuing its foreign expansion strategy through the opening of a branch in Bissau. The legislative and regulatory texts covering the insurance sector are currently being reviewed in preparation for the arrival of new operators and retirement funds are being restructured. At the same time, the government has given the minister for the promotion of investment and small and medium-sized companies the task of spearheading preparations for the introduction of micro-financing policy to serve as the basis of a donor-backed action plan for the period 2006-10. The attachment of a microfinance support structure to this ministry, when approval and control is the responsibility of the ministry of finance, is proof of the strategic importance attributed to this mode of financing, which is destined above all for small and medium-sized companies, women and young people.

Transport Infrastructure

Taking into account its geographical situation and a demographic density of less than 10 per cent, it is not surprising that improvement of transport links should be a strategic development objective for Mali. The road network is 18 709 km long and comprises 3 397 km of surfaced road, 11 148 km of earth road and 4 164 of track. This network links the capital to the principal regional centres – as far as Gao in the north via Ségou and Mopti and Sikasso in the south – but does not give the rural zones to these same centres. The density level of the Malian road network is among the lowest in West Africa, with 1.18 km of road for every 100 km^2, compared with an ECOWAS average of 3.1.

The rail network links only Koulikoro to Dakar in Senegal via Bamako. River transport is used to take construction material, rice, cereals and passengers to Timbuktu. It is out of action, however, for five months of the year. Mali has 25 airports, including six international ones in the main economic and tourist centres (Bamako, Kayes, Geo, Mopti, Sikasso and

Timbuktu). In recognition of its landlocked status, Mali has warehouses in the West African ports. Access to the sea has been diversified as a result of the Ivorian crisis with the result that these warehouses are often saturated and in need of expansion.

The 2005-07 period is a pivotal period between the end of the first sectoral transport programme and the start of the second 2008-12 phase, for which an investment programme was adopted in 2005. Road transport remains the priority but the upgrading of airports is also given attention. The two objectives remain the improvement of access to the exterior through the diversification of access to the sea and the pursuit of improvement to internal transport links by the development of interface roads and rural tracks. The two objectives are not contradictory because the improvement of internal transport links ties up with the main cross-border corridors to Nouakchott (via Nioro in Mali and Aïou El Atrouss in Mauritania, Dakar (via Kayes-Kidira, expected early 2006) and Conakry (via Narena-Kourémalé, inaugurated in October 2005). Bamako has access to these ports, all of which are situated at a distance of about 1 000 km. The choice of port depends on their storage capacities, the quality of their installation and the speed of administrative formalities, even if official strategy is to use all these ports according to need so as to reduce dependence on Côte d'Ivoire.

Implementation of Malian transport policy, which was drafted before the Ivorian crisis, speeded up after events in 2002, notably thanks to the opportunities offered by the regional and continental opportunities by the WAEMU (for links between capitals of countries in the union), ECOWAS (West African road programme) and the New Partnership for Africa's Development (NEPAD short-term infrastructure action plan). As a result, the eastern part of Mali is full of construction, maintenance and roadlaying projects. Two routes will lead to Dakar, one by the south (Kati-Kita, due to open in 2007) and one by the north (Diema-Sandaré, due to open February 2005). There are projects also under way in the north (Timbuktu-Tonka-Goundam-Dire, due to open end 2005) and in the south (renovation of the Bamako-Sikasso road up to the Côte d'Ivoire border), while the road between Gao and the border with Niger in the east should be operational in 2008. A road between Nioro and Banamba is also under study as a means of linking the main roads in the west with those in the east. This would link rice production and consumption zones between themselves, as well as with neighbouring countries, without having to use the right bank of the Niger. Planned improvement to strategic routes between Sévaré and Gao and Bamako and Bougouni, which will give access to the port of the Gulf of Benin (Tema, Lomé and Cotonou) and was due for completion by the end of 2004, has not yet started because of lack of funds.

The financing of road upkeep is the responsibility of the road agency under the terms of a reform which involves the creation of a national roads department and an agency for road maintenance, Ageroute. The road agency, Agence Routière, will have three types of resources which will provide 70 per cent of its budget: the road usage tax levied on oil products, the axle load tax and the road toll tax. The remaining 30 per cent will come from the state budget. At the moment, these proportions are reversed, with the greater part provided by the Ministry of Finance, with the result that disbursements for road maintenance are slowed down. The oil products tax comes to 3 CFA francs the litre and is included in the general tax on oil products. The aim is to increase it to 9 CFA francs the litre. The axle load tax was introduced in 2003 and Mali is studying the possibility of co-ordinating checks at border posts under community agreements and introducing a measure providing for user compensation for damage caused to infrastructures. With regard to road tolls, studies into the establishment and operation of 12 toll and weigh points are under way. The principal problem is finding private sector companies ready to invest in this domain. The government's programme provides for a budget of 7.5 billion CFA francs in 2004 and 13 billion CFA francs in 2007.

The national roads department fixes the main lines of the maintenance programme. It requires a financing convention with the Agence Routière, which has charge of administration and financial management of the road network, then a project management convention with the maintenance execution agency. This system should allow greater participation of the private sector in the realisation of work and maintenance services on the roads. Malian companies benefit little from the system, however, leaving the way open to French, Chinese, Senegalese and Tunisian companies, who are better equipped to win these contracts.

Road maintenance is a priority for Mali's partners. The World Bank has made available a loan of $32.48 million for the $131.51 million programme to reinforce transport corridors. The cost of the maintenance part of the programme is put at $75.36 million. The African Development Bank, the African Development Fund and the West African Development Bank are contributing to the financing. The European Union is providing grants via the ninth European Development Fund and the Arab funds are participating through OPEC, BID and the Arab Bank for Economic Development in Africa (ABEDA).

Since 2003, operation of the rail network is assured by the Franco-Canadian company Transrail. The concession has been awarded by a newly created Senegalo-Malian authority. It has made possible a reduction in container rotation from 40 to 20 days and a 50 per cent increase in net tonnage, compared to the situation in October 2002. While freight traffic has benefited from the reform, passenger transport is the object of a dispute between the conceding authority and the concessionaire who considers it is not profitable. The state is ready to subsidise prices on the basis of the utility to the nation of the Dakar-Bamako line but this choice does not suit Transrail which wants to stop the service, for which the number of stations has already been reduced. This situation has resulted in delay in investment in rolling stock which Transrail was supposed to carry out. Senegal and Mali decided to make good the delay by purchasing equipment from Indian operators. A programme of investment in rolling stock, track renewal and improved telecommunications was decided at the time of the reform. Its completion depends on a solution being found to the blockage in 2006.

Aviation infrastructures benefited from investment realised for the African Nations Cup in 2002. They need to be improved further, however. Runways need to be extended, hangars to be built, surface areas to be expanded and airport security improved. To achieve this, the government decided to put Malian airports out to concession. The rehabilitation of certain aerodromes in the interior of the country is being financed by the government and BADEA at a total cost of $12 million.

Development of transport infrastructures is indispensable to mobility, communication and interconnection between regions and with the rest of the world. There remain obstacles, however, which arise out of geographical constraints, the constant, high level of investment needed, insufficient financing capacity and the low level of development public-private partnerships, notably with regard to Malian companies. To meet this challenge, the government has linked its infrastructure development programme to the other strategic programmes under way, such as the PDCA (renovation of rural tracks), the programme of support for the private sector(Bamako airport) and the SFFP(improvement of access corridors to the sea). The transport sector represents a focal point of the strategy of development and elimination of poverty, which makes Mali one of the key countries for the Sub-Saharan Africa Transport Policy programme, which was due to hold its annual meeting at Bamako in November 2005.

Political and Social Context

From 1992, Mali embarked on major political, institutional, economic and social reforms with the aim of constructing democratic institutions, establishing a market economy and resolving the conflict in the north. It supported West African integration and solidarity by involving itself in the resolution of crises, reinforcing bilateral relations for the management of shared resources like the River Senegal, common infrastructures such as railways or port access routes and the development of transborder co-operation. In December 2005, Bamako played host to the Franco-African Summit, which was devoted to African youth. As a country of ancient and intense internal, African and international migration, Mali took advantage of the occasion to plead its case for migratory policies in

The Sévaré-Gao Road
Improvement of Transport Links for Food Security and National Cohesion

The road linking Sévaré in the Mopti region, where food crops are cultivated, to Gao in the north is 558 km long. Before its construction, one vehicle per day used the route and, at the time of the great droughts of the 1970s, food aid to the north was sent by aircraft in the absence of any other way of reaching isolated communities. Creating a link between Gao and the cereal production zones was seen therefore from the 1980s on as an objective serving food security and the fight against poverty.

Construction of the road benefited from German and Arab funds(ABEDA, BID, the Abu Dhabi Fund for Development, the Kuwaiti Fund for Arab Economic Development, the OPEC Special Fund for International Development, the Saudi Fund for Development). The work was carried under state control by the authority for the Sévaré-Gao road. The technical supervision of part of the link was put in the hands of a group of companies led by Satom. Since inauguration of the road in 1987, traffic has increased steadily and represents about 100 vehicles a day today.

The road has helped to reinforce national cohesion by facilitating mobility between the Gao, Tibuktu and Kidal regions and the southern part of the country. Compared to the cost of flying (85 000 CFA francs single) or by boat (9 322 CFA francs for a four to five-day journey in fourth class), the road journey costs 8 000 CFA francs and takes six to seven hours. The regularity of supplies to the market in Gao has led to a significant reduction in the price of foodstuffs and other basic necessities. In addition, the road has encouraged trade and the development of villages along the route, as well as those in the interior, through the construction of access roads to the main road.

However, with use, the condition of the Gao-Sévaré road is deteriorating and needs improvement. Preliminary studies were carried out with IDA financing. Financing is now being sought and the work put out to tender. The opening of a bridge over the River Niger at Gao is due in March 2006. On the basis of this example, the Malian authorities consider that it is necessary to rethink the notion of profitability which underlies the decision to build a road so as to better serve the fight against poverty.

harmony with the fight against poverty and the development of sub-Saharan Africa.

In Mali, reforms are implemented in a context of political stability and social dialogue. The existing political system is built round a coalition which took Ahmadou Toumani Touré to the presidency of the republic in 2002. It relies on concertation with management and organised labour on the basis of a model referred to as "consensual democracy". Since autumn 2005, however, a recomposition of the political chess board has begun following the emergence of a parliamentary opposition. At the next presidential elections in 2007, the two major parties, the Rassemblement pour le Mali (RPM) and the Alliance pour la Democratie au Mali (ADEMA) want to put up their own candidates against the president who can seek a second mandate. At the same time, the social climate became tenser in September 2005 when strikes were organised by the main Malian trade union, the UNTM. These protests, which were supported by the population, were organised to press for more efficient measures in favour of employment, particularly for young people (49 per cent of Malians are under 15), and higher salaries. Debates of this type are becoming more common in Malian society as democracy is consolidated and poverty evolves. Ninety per cent of poor people live in the rural areas but poverty is increasing in the big cities as a result of a deteriorating employment market and migration.

Growing urbanisation is encouraging political and administrative decentralisation. The second local political term began with the communal elections of 2004, in which the participation level was 43 per cent. The institutional development programme in progress is targeting obstacles to the implementation of decentralisation and power-sharing: the transfer of competence and resources; planning, budget and fund mobilisation procedures; local authority support. These reforms benefit from the support of the donors (USAID, AFD and others) who are financing the local authorities investment fund, which is managed by the national agency for local authority investment, ANICT, and support the elaboration of local development plans and the involvement of civil society. In 2001-03, 96 per cent of resources allocated to this fund were used. Its use is directed towards the realisation of small improvements and basic social infrastructures. The local tax system, on the other hand, is still unsuited to the needs of financing, for example for the periodic maintenance of a local road network.

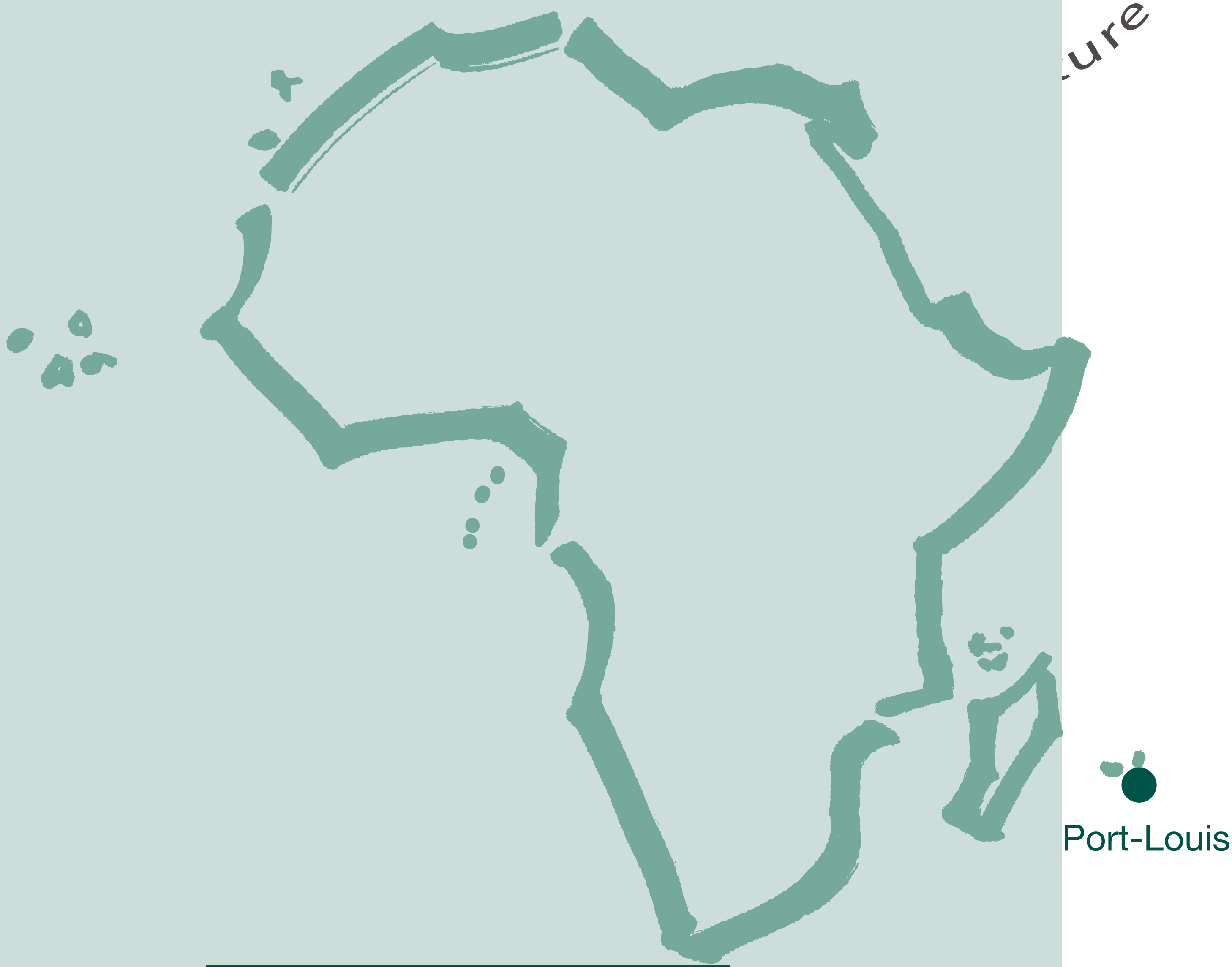
Mali has not improved its 174th position out of 177, according to the Human Development Indicator calculated by the United Nations Development Programme. This situation makes it difficult for Mali to achieve the Millennium Goals, even if the schooling and access to drinking water objectives appear to be within its reach. In 2006, the gross schooling rate should reach 70 per cent overall and 60 per cent for girls alone. In quantitative terms, the objective of reaching 100 per cent in 2015 is possible if efforts and resources are intensified. There is a question mark, however, over the viability of teaching, taking into account the massive use being made of temporary teachers and the limited training prospects which are offered to them. The level of access to drinking water was expected to reach 67 per cent in 2006, compared to the 82 per cent target set by the Millennium Development Goals.

Compared to the education sector, the health sector registered less progress, even though geographical access to healthcare improved. In 2004, 47 per cent of the population was less than 5 km from a community health centre. Lack of qualified personnel and material, especially in isolated regions, is having a particular effect on maternal and infant health. Despite the fact that caesarean births are free, the maternal mortality rate remains at 580 per 100 000, it was 582 per 100 000 10 years ago. The figure compares with a Millennium Development Goal rate of 145 per 1 000. Infant mortality has regressed to 212 per 1 000, thanks, notably, to better DCTP3 (diphtheria, tetanus and whooping cough) vaccination cover. This level remains too high, however, in relation to the objective of 145 per 1 000 by 2015. The mortality rate trends associated with tuberculosis and malaria have been rising again for some years. They stand at 55-60 and 20-25 per cent respectively. On the other hand, Mali has a relatively low HIV/AIDS prevalence level, compared with the rest of West Africa. It stands at 1.9 per cent of the population between the ages of 15 and 49. More women are infected than men and the population of the Bamako area more than the rest of the country.

Poverty affects more than 60 per cent of the population, of which a third is in extreme poverty. With an annual reduction rate of the incidence of poverty of 0.35 per cent, a reduction of poverty by half by 2015, in line with the Millennium Development Goals, is not imaginable. The impact of economic growth on poverty is limited, even during periods of strong growth like the 1990s. The persistence of the poverty level can also be explained by the fall in the employment level, particularly in the public sector. In 2004, the unemployment level was 8.8 per cent with higher levels in Bamako (11 per cent) and the other big cities(14 per cent). It is a result, too, of the inequality of access to basic social services and economic opportunities in the different region.

Working on the basis of this analysis and the evaluation of implementation of the 2002-06 SFFP, the government is preparing the second phase of the framework for the period 2007-11. It is based on the consolidation of the results achieved, integration of the OMD in growth strategy and acceleration of growth. The actions planned have been organised on the basis of the different types of obstacles identified: vulnerability to the vagaries of the climate, food insecurity, poor transport links, the high cost of factors and the need to improve the business climate. Corresponding to these obstacles are priority intervention domains, corresponding to sectors with strong growth potential(rice, cotton, livestock and meat, fruit and vegetables, mining, small-scale businesses and tourism), access to social services, development of transport and communication infrastructures, good management of public affairs and sectoral policy, the pursuit of institutional reforms and investment in human resources. It is question, then, of anchoring in a more unified and coherent framework the diverse development and poverty elimination programmes which benefit from international aid and investment. The challenge to be taken up is that of the implementation of these measures and the pursuit of reforms.

Mauritius

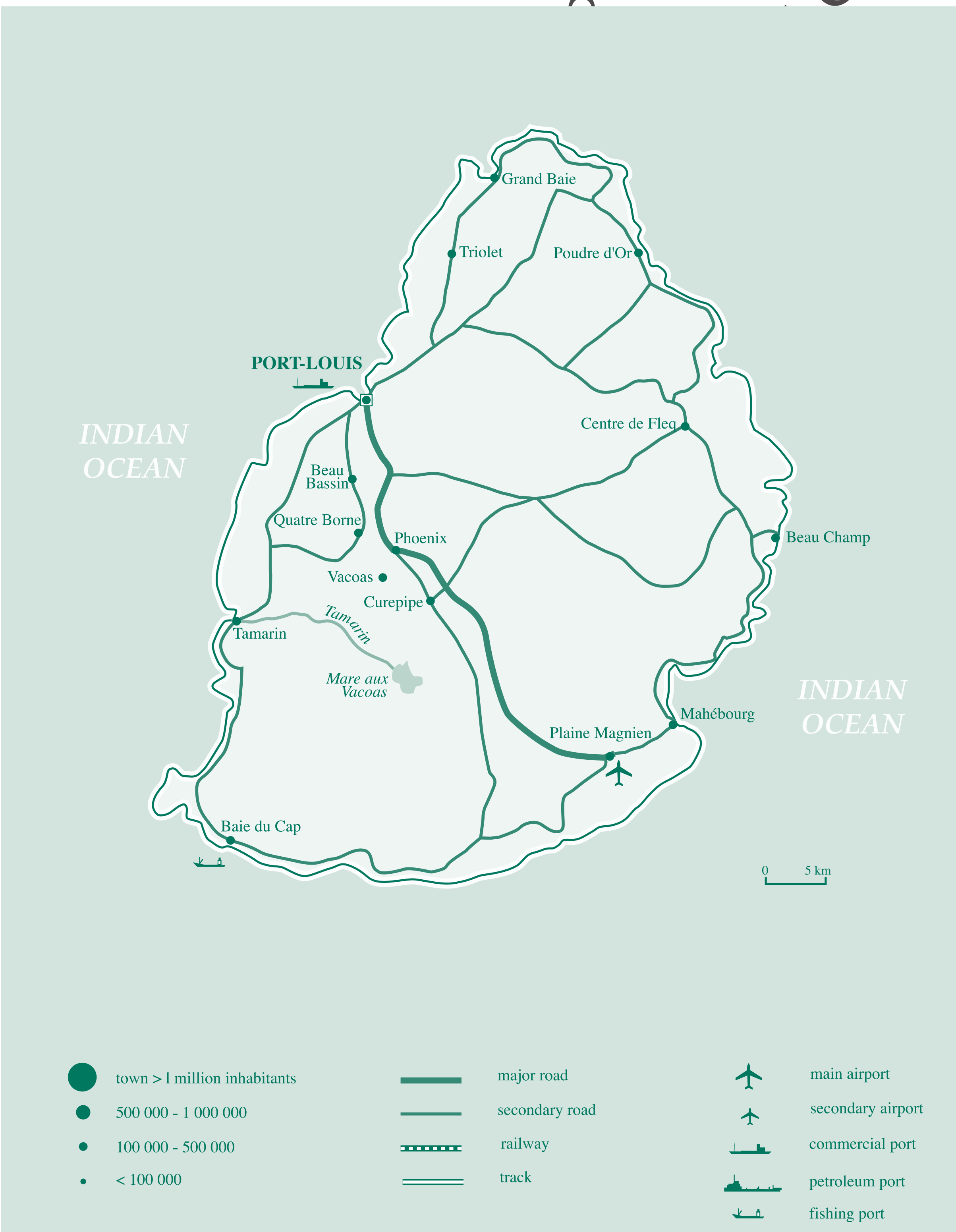


key figures

• Land area, thousands of km^2	2
• Population, thousands (2005)	1 245
• GDP per capita, $ PPP valuation (2005)	13 542
• Life expectancy (2000-2005)	72.1
• Illiteracy rate (2005)	13.6

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/440280862401

Mauritius

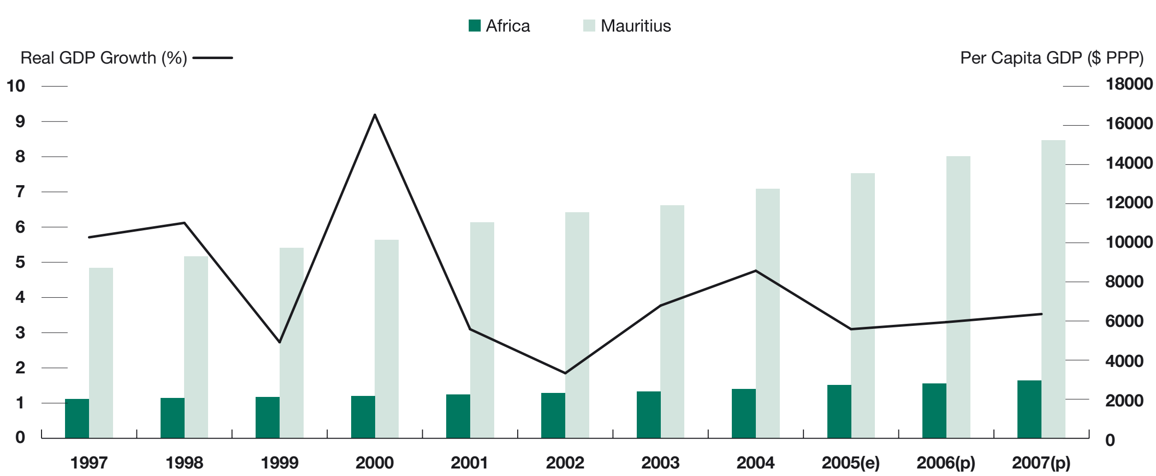


MAURITIUS HAS ONE OF THE HIGHEST standards of living in Africa. It enjoyed sustained growth of more than 6 per cent in the 1990s and reached GDP per capita of $11 287 (in PPP terms) in 2003. The traditional engines of growth in Mauritius have been sugar, textiles, and tourism. More recently, Mauritius has diversified into financial services and information and computer technologies (ICT). Mauritius has one of the most competitive economies, ranked first in Africa, and 23rd worldwide for its business activity facility. Mauritius is now a middle-income country as a result of good economic performance, and ranks 65th in the world and second in Africa (after the Seychelles) on the 2005 Human Development Index. The economic track record of Mauritius is the product of its sound institutions, good level of human capital and preferential access to the European Union (EU) market for its key exports.

However, since 2000, Mauritius has faced new challenges and its economic performance has suffered, resulting from its loss of preferential access to the EU sugar and textile markets. In the textile sector, Mauritius is facing increased competition from cheaper Chinese and other East Asian country exports. These new constraints mean there is an urgent need to diversify the Mauritian economy. The persistent budget deficits must be reduced. Moreover, labour market and education reforms are prerequisites for absorbing the unemployed.

The end of preferential treatment and a high budget deficit threaten the economy.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: Central Statistical Office data: estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

While the annual growth rate was on average above 6 per cent at the end of the 1990s, it has fallen to a much lower level since 2000. Performance for 2005 is expected to be even lower at 3.1 per cent, 1.7 percentage points lower than in 2004. Indeed GDP grew by only 0.7 per cent in the first quarter of 2005, as compared to 6.6 and 3.5 per cent in the first quarters of 2003 and 2004. Excluding sugar, the 2005 growth rate is expected to reach 3.6 per cent, compared to 4.2 per cent in 2004. The lower than expected growth rate is due to the poorer performance of the four main economic sectors. First, sugar production in 2005 is expected to be around 520 000 tonnes, instead of 550 000 tonnes, because of the excessive rainfall in September 2005. While the area under sugar cultivation has been falling between 2001 (73 196 hectares) and 2005 (68 883 hectares), sugar yield has also fallen from 79 to 72 tonnes per hectare over the same period. Second, the export processing zone (EPZ) has contracted by 13 per cent due to the end of the textile trade quotas in January 2005, coupled with competition from low-cost textile producing countries. Third, the construction sector contracted by 3.7 per cent in 2005, mainly because of delays in - or the non-execution of - several projects. Fourth, the non-EPZ manufacturing sector grew by only 2.5 per cent as a result of increased competition from imported goods faced by these domestic-oriented manufacturing industries.

Recent poor economic performance has meant that the unemployment situation and public finances have deteriorated. Unemployment has risen steadily since 2000 to peak at around 10 per cent in 2005. The reasons for this lacklustre performance are, as has already been noted, the changes in the EU Sugar Protocol and increased competition on the international textile market.

Sugar has always been the main pillar of the Mauritian economy, enjoying preferential EU market access. Under the EU Sugar Protocol, ACP countries export 1.6 million tonnes of sugar to the EU at a price which is usually two or three times world market prices. The current price paid to ACP producers is 632 euros per tonne. Mauritius is the ACP country that benefits the most from the Sugar Protocol, accounting for one third of the total quota. Exports to the EU account for more than 90 per cent of the sugar cane production of Mauritius.

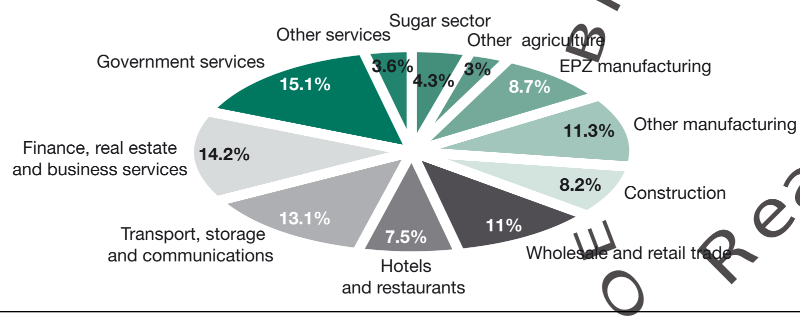
Following a WTO ruling, the EU had to reduce the ACP-guaranteed sugar price. The guaranteed price will gradually be lowered between 2006-2009 by 36 per cent (instead of the worst-case scenario of a 39 per cent cut) to 400 euros. The price of sugar will fall by 5 per cent in 2006, representing lower export earnings of 500 million rupees for Mauritius. There will be a further reduction of 17 per cent in 2008, i.e. an additional loss of 1.8 billion rupees, and finally the full price cut will come into effect in 2009. This cut would translate into lower earnings of approximately 4 billion rupees.

Mauritian sugar producers will find it difficult to compete on the international market because their production costs are much higher than the world market price. In fact their cost of production is twice that of the most efficient ACP suppliers, and even higher when compared to Brazilian prices. To tackle the anticipated fall in the guaranteed sugar price, the sugar industry and the government have taken some measures to adapt to the new situation. A 5-year Sugar Sector Strategic Plan (2001-05) was implemented to restructure and rationalise the sugar industry. The goal was to decrease the number of sugar mills from 14 to 7 or 8, so as to benefit from any increasing returns to scale, to reduce by up to 7 000 the current labour force of 30 000 through a voluntary retirement scheme, as well as proposing a number of other cost-reducing and diversification measures.

In an effort to diversify away from sugar, the government has planned a number of Integrated Resort Schemes (IRS) offering luxury villa complexes for sale to foreigners at a price exceeding half a million dollars. Villas sold under the scheme form part of international-standard building complexes offering high-class facilities and amenities such as golf courses, marinas and individual swimming pools, nautical and other sports facilities, health and beauty centres and high-quality restaurants. The acquisition of a villa under the IRS will grant resident status to the investor and their spouse and dependents.

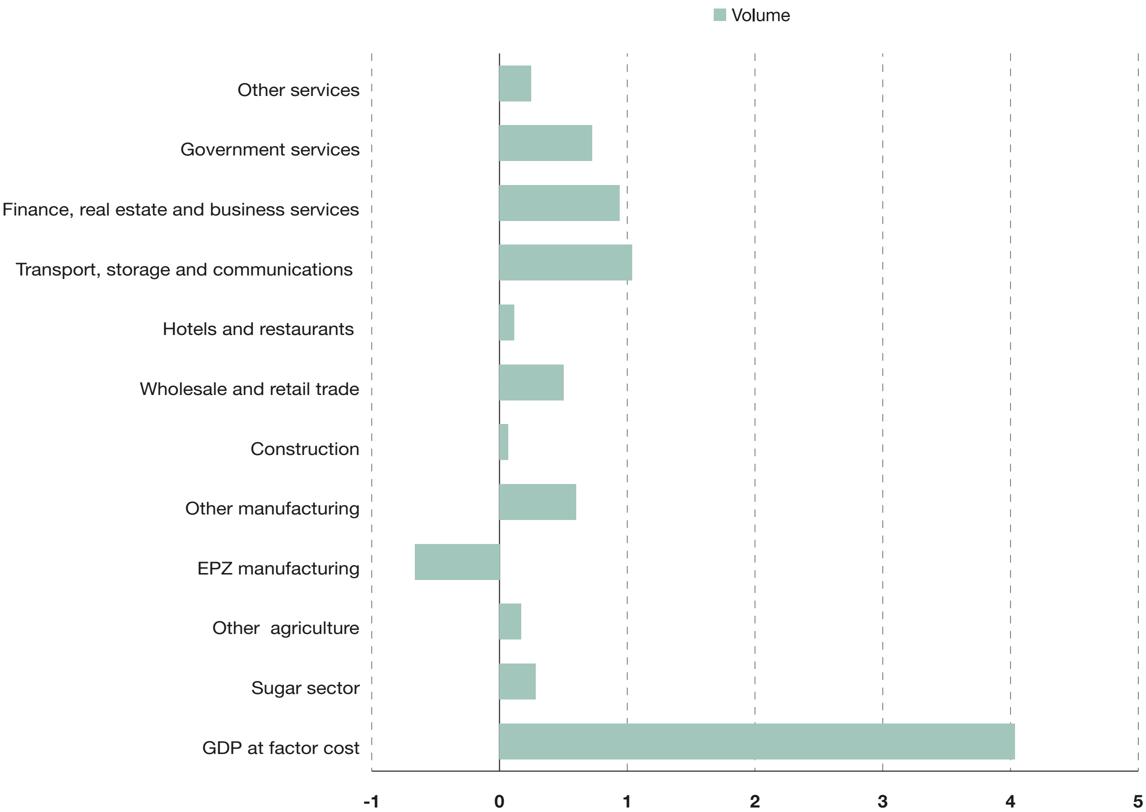
The government is also offering incentives to encourage the transformation of Mauritius into a seafood-producing hub, with the expectation that 2 000 new jobs will be created in this sector by 2008. The Mauritius Freeport Development Corporation is expected to invest 300 million rupees in the construction of a fishing harbour which should come into operation in March 2006. A number of private companies are also

Figure 2 - - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

increasing their investment in the sector, especially in tuna fishing and canning.

Unfortunately, these reforms have so far been too slow and have yet to produce significant gains in employment or competitiveness. For example, 11 sugar mills - instead of the planned 8 - were still operating in 2005. Both the sugar sector and the government were under the impression that EU-guaranteed sugar demand would not be drastically reduced, or, if this were the case, that Mauritius would benefit from sufficient monetary compensation and a long transition period before the lower price came into force. However, this did not happen and the EU has reduced its price. It is now expected that one third of all employees in the sugar sector will be made redundant.

Drastic adjustments in the sugar sector are needed. At the end of 2005, there were indications that two sugar cane mills located in the south of the island (Mon-Trésor/Mon Désert and Riche-en-Eau) will close in 2007. Mauritian sugar cane producers have started to invest in Mozambique and Tanzania where the costs of land and production are lower than in Mauritius. In addition to potential sugar mill mergers and voluntary retirement schemes, sugar can also be used to manufacture other products that are in greater demand on the market. Other higher value-added types of sugar product yielding a higher export price have already been exported to niche European markets. However this, as yet small, volume cannot adequately compensate for the expected loss in raw sugar revenue. Another of these types of products is ethanol, which can be blended with gasoline to create a cheaper fuel that could reduce the energy bill of many oil-importing countries. It is estimated that some 30 million litres of ethanol could be manufactured for use in blended gasoline products. Some initiatives have already been taken in Mauritius to produce ethanol for this purpose. However, the benefits of these will only appear in the long run. For now, higher unemployment caused by the downsizing of the sugar sector remains the challenge to be overcome.

The agricultural sector grew strongly in 2004, but growth slowed in 2005, reflecting earlier developments in 2003, notably recovery from poor weather conditions, when the sugar cane crop produced 537 155 tonnes of sugar. Accordingly, sugar production fell to 519 816 tonnes in 2005, from 572 316 tonnes in 2004.

Mauritius was able to diversify out of sugar by attracting investors into the Export Processing Zone (EPZ), especially in the textile sector. The manufacturing boom has largely been responsible for this economic turnaround. Incentives in the form of tax holidays, exemptions from import duties and from some aspects of the regulatory regime, as well as preferential credit, were provided to foreign and domestic investors who would specialise exclusively in exporting. The volume of EPZ activity expanded rapidly, benefiting from high profits recycled from the sugar industry and from trading arrangements and protectionist EU and US policies which placed textile quota restrictions on some countries while allowing free entry to others.

However, the EPZ, especially the textile sector, is now at a turning point. Restrictions mandated by the EU and the United States are inhibiting its survival. The GATT has eroded preferential access to these markets for Mauritius and rising labour costs are threatening to reduce international competitiveness. EU proposals to cut import duties on textile and clothing by half will also have severe negative consequences. The Mauritian textile sector would be severely affected because most (80 per cent) textile products (sweaters, tee-shirts, trousers) are not in the high-quality category and also face stiff competition from Chinese, Indian or Bangladeshi producers. Cheap textile products from China and other South East Asian countries are now reaching US and EU markets at much lower prices than those made in Mauritius. Moreover, most Hong Kong investors moved elsewhere after the ending of the favourable tax regime. Some estimates point to a loss

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**29.4**	**22.3**	**23.0**	**24.4**	**25.3**	**26.7**	**26.8**
Public	10.2	6.8	8.9	6.7	6.7	7.0	7.0
Private	19.2	15.5	14.2	17.8	18.6	19.6	19.7
Consumption	**75.5**	**74.6**	**75.7**	**77.9**	**70.4**	**70.8**	**70.0**
Public	14.1	13.9	14.2	14.3	13.5	13.8	13.5
Private	61.4	60.7	61.4	63.5	56.9	57.0	56.5
External sector	**-4.9**	**3.0**	**1.3**	**-2.3**	**4.3**	**2.5**	**3.2**
Exports	61.5	61.8	56.7	54.5	61.6	60.0	60.0
Imports	-66.3	-58.8	-55.4	-56.9	-57.3	-57.5	-56.8

Source: National Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

of 22 000 jobs in the EPZ. Investors have started responding to this situation by looking for new markets, by delocalising production to lower-cost economies, and by recycling profits in the services and financial sectors. Reflecting these developments, textile production fell in 2005 and is expected to continue contracting in 2006 and 2007.

Tourism has been the second engine of economic development in Mauritius since the early 1980s. The government took advantage of its tropical island appeal, beautiful beaches, security and absence of tropical diseases to promote Mauritius as an exclusive destination. Tourism is still very much a growth industry in Mauritius. Indeed, foreign earnings from tourism now exceed earnings from sugar.

In spite of the lacklustre performance of world tourism markets in general, Mauritius has performed quite well. The number of tourist arrivals during January-September 2005 reached nearly 530 000 compared to 503 300 for the same period last year. This is an encouraging sign given that the peak tourist season for Mauritius occurs during the last three months of the year. Thus, it is expected that 755 000 tourists will have visited Mauritius in 2005 compared to 718 861 in 2004.

Gross foreign earnings from tourism amounted to 23.5 billion rupees in 2004. The first semester receipts for 2005 are 5 per cent higher in rupee terms compared to the first semester of 2004. Finally, the number of employees in large hotels has increased by 12 per cent between March 2004-2005. Good performance in the Mauritian tourism sector can partly be attributed to the perception that Mauritius is a secure destination and to the promotion efforts made by the Mauritius Tourism Promotion Authority (MTPA) in Europe and India. Moreover, emerging markets such as Austria, Spain and Australia are rapidly growing.

Much hope is being placed on the tourism sector to help Mauritius overcome its looming economic crisis. An additional 3 000 rooms are expected to be ready by 2006 with the opening of five new hotels representing an investment of 4 billion rupees. These investments are expected to create 1 400 new jobs. Projects are being developed in line with the concepts of the Integrated Resorts Scheme (IRS) and also green tourism. The IRS was introduced in the 2002/03 budget, with the hope of boosting foreign direct investment in the tourism sector. It promotes the construction of luxury villas with golf courses and hotels. Villa prices start at $500 000, which is the minimum investment threshold necessary for a foreigner to qualify for Mauritian citizenship.

The government is still targeting the upper end of the tourism market, which is high-spending and low-impact. However, given the recent trends in the world tourism industry, this strategy does not seem to be widely accepted. In order to fully exploit other avenues for the development of tourism, new air landing rights have been the subject of recent discussions both at government and at private sector levels. One of the strategies is to gradually open air access and promote Mauritius for leisure, business and shopping. The present government is in favour of a gradual liberalisation policy regarding air access. In fact, air access has already been granted for a second French and Indian air carrier to land in Mauritius. Discussions are also ongoing for a second carrier from the UK. Other European carriers are also trying to lobby for the same advantages. The idea is to allow airlines to make additional flights during peak seasons.

The government is also looking at opening up new direct routes for the national carrier to destinations such as China and Spain. However, faced with already well-developed destinations offering the same product, such as Dubai and Singapore, the government and private sector operators need actively to be exploring more innovative concepts. Given the problems in other areas of the economy, tourism could partly contribute either directly or indirectly to reduction of the unemployment problem and could also generate economic growth.

The savings rate is expected to fall to 18.3 per cent in 2005 from 22.7 per cent in 2004. This gives cause for concern because most GDP growth in the past has been fuelled by domestic investment. Public sector investment share of GDP is forecast to stay constant in 2005. Private investment share is expected to increase and reach nearly 20 per cent by 2007.

Strong emphasis is being placed on information and communication technology (ICT) as an important engine of economic growth in Mauritius. However, there are still many hurdles to overcome. One of the star performers in ICT in Africa, Mauritius had 180 000 Internet users in September 2005, providing the highest Internet penetration rate (14.2 per cent) in Africa, along with 267 mobile phone users per 1 000 inhabitants in 2003, also the highest penetration rate for this sector in Africa. The liberalisation of telecommunications services since 1 January 2003 has given a major impetus to the ICT sector.

Mauritius has the capacity for broadband Internet access. The Southern Africa Far East (SAFE) optical fibre cable links Portugal to Malaysia via South Africa and Mauritius. The first cyber-city which opened in Ebène in 2004 has attracted a number of renowned international firms engaged in software development, ICT training, PC manufacturing and call centres. It currently has an almost full occupancy rate. The Ebène cyber-city provides a telecommunications network, through both satellite and the SAFE optical fibre cable. However, the lack of skilled individuals is a major constraint in the implementation of ICT strategy. Infosys, a leading Indian IT company now operating in Mauritius, must send Mauritians to India every year for training. However, a significant share of those students either do not graduate or find employment with other companies. One solution to this shortage of skilled labour is to further loosen immigration rules for highly-skilled individuals in the IT sector. Currently, Indian IT specialists are automatically granted a 6-month work visa upon entry into Mauritius.

Another fundamental challenge to the use of SAFE as a development tool for Mauritius is the provision of competitive prices and services to the customers. However, exclusive ownership of the SAFE cable has been granted to Mauritius Telecom, which holds the existing monopoly. This means that Internet prices are much higher in Mauritius than elsewhere. For example, at the beginning of 2005, the price of SAFE between Reunion and Paris was 1 550 euros per megabit per month compared to $8 600 for the same service in Mauritius. Hence, it is urgent to address the human capital and connection costs constraints for Mauritius in order for it to fully reap the benefits of the ICT revolution.

Although Mauritius relies heavily on the exports of sugar, textiles/garments and tourism, services like the Freeport, offshore business, and financial services constitute other pillars of the economy. The offshore sector is playing an increasingly important role in the financial services sector and is emerging as a growth vehicle for the economy. At the end of October 2002, 20 111 companies were registered in the offshore sector. New regulation has been introduced to remove the distinction between offshore and local banks.

The Mauritius Freeport, the customs duty-free zone in the port and airport, aims to transform Mauritius into a major regional distribution, trans-shipment and marketing centre. The Freeport zone provides facilities for warehousing, trans-shipment operations and minor processing, simple assembly, and re-packaging. At the end of the fiscal year 2004/05, there were 349 licences active in the Freeport. One goal of the government of Mauritius is to use the Freeport to re-export to Asia and Africa. After handling 11 350 containers in 2003/04, that number fell to 9 225 in the fiscal year 2004/05. However, the traded value (in Mauritian rupees) has increased by 46 per cent over that same period.

The mixed picture of growth and decline in the various economic sectors has been associated with increased unemployment. This combined with inflationary pressures has weighed heavily on household incomes. Consequently, growth in private consumption slowed from 12 per cent in 2004 to 9 per cent in 2005 and is not expected to recover much in 2006 or 2007. Meanwhile growth in private investment slowed as well. Deterioration in the balance of payments on goods and non-factor services as expressed in constant prices has also depressed growth in 2005, while the stance of fiscal policy has been mildly expansionary. Thus, GDP growth is expected to decline from 4.3 per cent in 2004 to 3.1 per cent in 2005 and to exhibit little recovery in 2006 and 2007.

Macroeconomic Policies

Fiscal Policy

There is a disconcerting trend of deterioration in fiscal deficits, which could approach the same level as they did in the crisis year of 1982. For 2004/05, a budget deficit of 5 per cent of GDP was announced. However, this deficit excludes 1.76 billion rupees in interest payments on T-Bills in that year, which were postponed to 2007/08. Moreover, the Road Development Authority also contracted a loan of 500 million rupees. Finally, the STC has incurred a deficit of 578 million rupees on petroleum and other products. If all this were taken into account, the overall current deficit would reach 6.2 per cent of GDP.

One of the problems for Mauritius is its narrow tax base. Indeed, direct taxes (on income and profits) have not accounted for more than 3 per cent of GDP over the past five years. Most of the government's revenue has been from indirect taxes since the fiscal year 2000/01 and its share in GDP has constantly increased over that period. In the fiscal year 2004/05, indirect taxes accounted for 9.3 per cent of GDP. Interestingly, trade taxes have fallen from a high of more than 5.8 per cent in 1999/2000 to 4.2 per cent during the last three fiscal years. This reflects the fall in import duties in line with the GATT.

Transfers account for the largest share of government expenditure and have remained stable at around 39 per cent during the past ten years. Salaries and wages have accounted for approximately one third of government expenditure in the recent past. Interestingly, government investment has stagnated in nominal value during the past two years after having increased by 38 per cent in the fiscal years 2000/01 and 2002/03. Since then the cumulative increase has been lower than the inflation rate. This means that Mauritius is not investing enough in long-term growth-enhancing public projects.

The public finance situation is quite bleak; initial measures taken by the incoming government will not help reduce the budget deficit but will rather exacerbate it. In 2005 the new government quickly implemented two of its electoral promises, which will probably increase current expenditure in an ongoing way. The first promise was to grant free bus transportation to all pensioners (i.e. all those over 60) and students. While pensioners can use all buses for free, to travel anywhere, students enjoy free transportation between their places of residence and their schools. The free public transport programme is expected to cost approximately 600 million rupees per year. The subsidies are not paid to students, but to bus owners, who receive 11 000 rupees per day, per bus, irrespective of the number of students they actually transport.

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Total revenue and grants	**19.7**	**18.3**	**20.0**	**20.3**	**21.0**	**20.9**	**21.4**
Tax revenue	16.7	15.7	17.3	17.6	18.7	18.6	19.0
Grants	0.1	0.2	0.2	0.4	0.3	0.3	0.3
Total expenditure and net lending	**26.1**	**24.3**	**26.4**	**25.7**	**26.0**	**25.9**	**27.1**
Current expenditure	20.6	20.3	21.1	21.1	21.3	21.0	21.9
Excluding interest	*17.1*	*17.0*	*16.8*	*17.1*	*17.5*	*17.3*	*18.2*
Salaries	6.9	6.4	6.3	6.6	6.7	6.5	6.6
Interest	3.4	3.3	4.3	4.0	3.9	3.7	3.7
Capital expenditure	3.8	3.7	4.7	4.3	4.5	4.6	4.9
Primary balance	**-3.0**	**-2.8**	**-2.1**	**-1.3**	**-1.1**	**-1.3**	**-2.1**
Overall balance	**-6.5**	**-6.1**	**-6.4**	**-5.3**	**-5.0**	**-5.0**	**-5.8**

Source: National Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

The second promise was to re-establish universal old-age pensions to all those aged over 60. The previous government changed old-age pensions criteria from being universal to means-tested, whereby all those with earnings above a specified threshold received no old-age pension. The new government reinstated universal pensions as soon as it assumed power.

As a result of its recurrent budget deficit, Mauritius has been resorting to increased public borrowing over the last five years and rolling over interest payments in the form of deferred Treasury notes. Public debt (and the interest servicing burdens this imposes) is now approaching levels where room for manoeuvre is highly constrained.

Monetary Policy

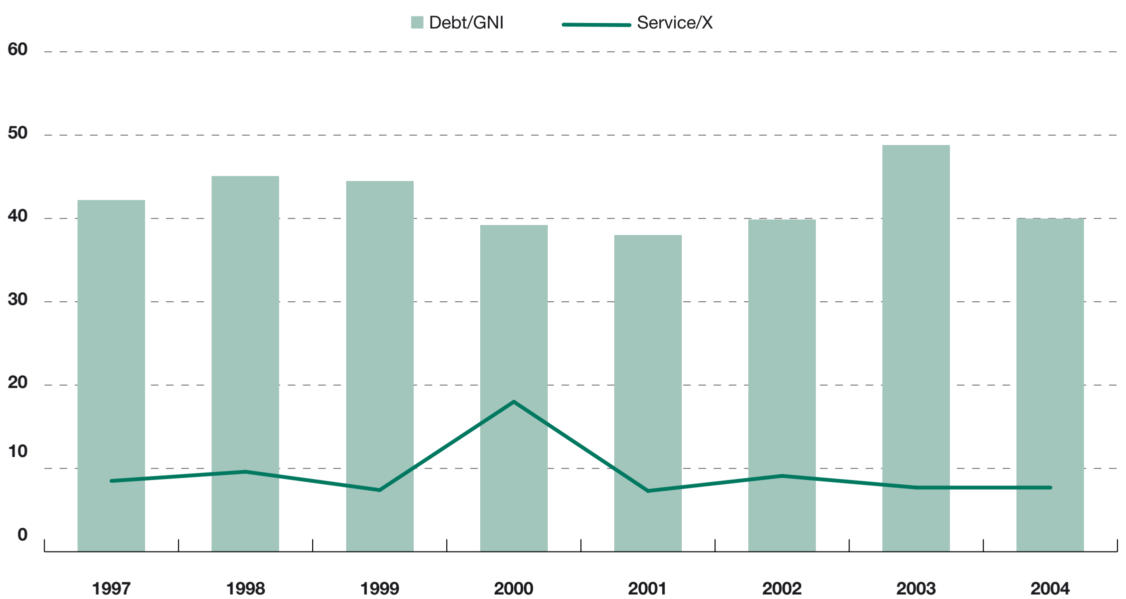
Mauritius has been able to achieve low and stable inflation after adopting inflation targeting. While inflation was approximately 6.7 per cent at the end of the 1990s, it only exceeded 6 per cent in 2002 and is estimated to have been at 5.1 per cent in 2005. This figure is higher than the inflation rate for 2004 because

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-10.5	-4.4	-5.4	-9.1	-13.6	-15.6	-15.3
Exports of goods (f.o.b.)	40.1	37.7	33.9	31.6	28.1	26.3	25.9
Imports of goods (f.o.b.)	-50.7	-42.2	-39.2	-40.7	-41.7	-41.9	-41.2
Services	5.7	7.5	6.7	6.8			
Factor income	-0.4	0.3	-0.5	-0.2			
Current transfers	0.2	1.9	1.0	0.7			
Current account balance	**-5.1**	**5.2**	**1.8**	**-1.8**			

Source: National Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

of the high price of oil. Interestingly, this relatively low and stable inflation rate has been achieved during a period of relatively high output growth.

External Position

At the end of the 1990s, Mauritius registered a balance of payments surplus leading to a comfortable external reserves position of more than nine months of imports, an external debt service ratio of only 7 per cent, and modest single-digit inflation on average. While the current account posted sizeable surpluses in past years, it is expected that Mauritius will post a negative trade balance of more than 20 billion rupees in 2005, i.e. more than double the amount for 2004. Moreover, the energy bill is constantly increasing because of the high price of oil. For the fiscal year 2004/05, the cost of petroleum imports has tripled compared with three years ago. For the coming year, it is expected that the value of oil imports will increase by 3 billion rupees. It is a matter for concern that petroleum currently accounts for 13 per cent of all imports.

Net foreign reserves were lower by 6 per cent in 2005 than in 2004. This occurred because the Bank of Mauritius repeatedly intervened by selling US dollars in order to manage the exchange rate. Indeed, the Mauritian rupee has depreciated by approximately 6.8 per cent in relation to the US dollar in 2005. The Bank of Mauritius rate was increased to 7.46 per cent in December, which is the highest rate since the end of 2003. The debt situation is also very worrying. Public debt was estimated at 120.4 billion rupees in 2005, which represents about 66 per cent of GDP. Such high public debt was one of the motivating factors for the ratings agency Moody to downgrade Mauritius.

Structural Issues

Recent Developments

While unemployment rates were below 3 per cent in the early 1990s, the labour market situation has since significantly worsened. The unemployment rate has increased continuously to reach 8.5 per cent in 2004. The upward unemployment trend is not expected to change soon, and it is estimated that the unemployment rate in 2005 will peak at 9.5 per cent. The current unemployment rate is at the same level as rates observed in the mid-1980s when the Mauritian economy was in very poor shape.

A number of reasons lie behind this steady increase in the unemployment rate in Mauritius. First, the number of employees in the textile sector has declined, following the end of the tax exemption that was granted to Hong Kong investors. This decline has been compounded by the increase in the cost of labour in Mauritius. Between 2000 and 2004, average wages grew by 36 per cent outpacing inflation for the same period by 9 percentage points. The number of employees in the export processing zone, which has been the main engine of growth in Mauritius, is now (2005) at its lowest level since 1994.

Interestingly, Mauritius has been making intensive use of imported labour from China and India. The number of foreigners working in large establishments in Mauritius has been increasing continuously since 1990, when there were 1 000 foreigners working, to 2003 when there were 19 121. For the first time since 1990, the number of foreign workers in Mauritius fell to 18 062. This fall is partly due to the closure of a number of textile companies. Interestingly, since 1997 there are more female than male foreign workers in Mauritius. This is because of the demand for unskilled females to work in the textile sector. The second major employer of foreign workers is the construction sector.

This situation is quite paradoxical in light of the number of unemployed people in Mauritius. It indicates a mismatch between labour demand and labour supply that needs to be addressed in order to resolve the unemployment problem. It is true that employment in the export processing zone is low paid with very long working hours. Another interesting factor about the Mauritian labour market is the relatively high number of vacancies. The number of posted vacancies in establishments with more than 10 workers has doubled between 2002 and 2004 to reach 3 225 vacancies, about the same level as the peak reached in 2001.

Mauritius faces serious challenges in the coming years to find employment for low- or medium-skilled labour market participants. One positive element has been employment in the tourism sector. Between March 2004-2005, 2 559 jobs were created in large hotels and restaurants (i.e. those with more than 10 employees). In fact, tourism is the sector that has created the most employment over that period.

With regard to privatisation, very little has been done since 40 per cent of Mauritius Telecom was sold in 2000 to France Telecom. No major state-owned corporation has been sold. However, the government has taken some important steps to deregulate the telecoms sector. A major new player is scheduled to deliver phone services in 2006. Some steps have also been taken to integrate the private sector as a supplier of electricity. Hence, some 45 per cent of electrical power is generated by private sugar operators using bagasse.

Transport Infrastructure

For a small island of 1 865 sq km, there are 2 020 km of roads in Mauritius, of which 47 per cent are main roads, 29 per cent are secondary roads, 4 per cent are motorways and the remaining 20 per cent are made up of other types of roads. The road network in Mauritius is quite mature and since 2001 only 20 km of road (15 km of motorway and 5 km of main roads) have been added. The bus network is quite extensive and is organised around Port Louis. New air-conditioned buses have been introduced to link Port Louis with the main residential areas of the island.

The main transport problem in Mauritius is severe congestion afflicting all traffic entering and leaving Port Louis during the morning and evening peak periods. This problem has become more acute in the last five years as more people have acquired cars and started to use them to commute to work. Between 2000 and 2004, there were more than 22 000 private cars (i.e. an increase of 41 per cent) and 5 800 lorries and vans (an increase of 20 per cent) in circulation. If the current trend continues, Mauritius will face even greater traffic and pollution problems. One major constraint to alleviation of the problem is the difficulty of finding ways of expanding road capacity in, and around, Port Louis where space is exceedingly scarce. The topography, and the necessity of protecting remaining wildlife, also prevent any radical expansion of the road network. It is in this light that the recent change of plans should be viewed concerning the road through the Ferney Valley, which has a unique ecosystem.

Any solution to the transport problem in Port Louis should target better road access into and around Port Louis, the supply of alternative transport modes to reduce car use for commuting to work, and the introduction of user fees for those who decide to use their cars at peak hours. Over the years, the government has contemplated the introduction of a light rail transit system from the centre of the island, through the main towns down to Port Louis. However, the light rail transit system has not materialised because of the high level of investment required and uncertainty about the financial viability of the project. Other alternatives are dedicated bus routes into Port Louis and a ring road around Port Louis so that north and southbound roads do not have to go through Port Louis. Numerous studies have been produced on the road traffic situation in and around Port Louis. It is now time to act before the cost of commuting to Port Louis becomes untenable.

For a small island which relies heavily on tourism, good access links with other countries are crucial for its development. Mauritius has one fully modern airport located in Plaisance in the south of the island. There have been repeated calls to build a new airport in the north. However, it would be difficult to justify such an investment in view of the current utilisation of Plaisance, where the main problem is one of peak usage, as most aeroplanes from and to Europe, land and depart at around the same time. It would therefore appear that the construction of a second runway in Plaisance, both for security and business reasons, should be the next step in improving airport infrastructure. Moreover, there is only one airport terminal in Plaisance, which does not allow for the separation of departing and arriving passengers. This poses security concerns and for this reason the construction of a second terminal should be considered.

Up until now, Mauritius has had a restrictive air access policy based on bilateral agreements. The government of Mauritius signs bilateral agreements with other countries (not airlines) determining the number of companies based in that country which can service Mauritius. The rates are then jointly set by Air Mauritius (the local carrier), and the company, which is nominated by the foreign country. Hence, the air service into Mauritius is characterised by a collusive duopoly. Among all companies landing in Mauritius, Air India is the only one that can pick up passengers in Mauritius en route to other destinations. Given the nature of the bilateral agreements, it is therefore not surprising that Air Mauritius has earned approximately 600 million rupees in profits in the past fiscal year.

There have been consistent calls, especially from the tourism sector, to at least partially liberalise air access into Mauritius. In that respect, a recent report entitled "Master Plan for Air Transportation" showed that present air access policy is uncompetitive and designed to restrict and manage competition. Some changes in air access policies were implemented in 2005. First, a privately-owned company (CatoVair) is now allowed to operate domestic flights between Mauritius and Rodrigues. This new airline company will be a welcome competitor to Air Mauritius, which until now has had the monopoly on that service line. Second, the government of Mauritius has agreed that the French government can send a second airline to Mauritius. However, although charter flights are (in theory) not allowed to operate to Mauritius, some companies have operated some special flights from new tourist markets (e.g. Eastern Europe) to Mauritius.

Port Louis, the capital of Mauritius, is a deep-sea harbour where ships are quite well protected from strong winds. In Mauritius, most of the cargo (99 per cent) is exported by ship and the cargo sector is fully liberalised. Mauritius has a Freeport which provides free repatriation of profits, exemption of duties on goods imported into the free zone and access to local market and banking services.

Political and Social Context

Since gaining independence from the British in 1965, Mauritius has been a fully-fledged democracy with regularly contested and transparent elections. There is complete freedom of the press and civil society is fully engaged in the debate about policy options. The government is accountable to the electorate and there has been a healthy turnover of governments since independence, with regular, peaceful multiparty elections. Democracy is vibrant and there is real debate about the validity of government policies. The last general elections were held in August 2005. The incumbent government was defeated and replaced by the Social Alliance party. By all accounts, the elections were fair and 81.5 per cent of registered voters cast their ballot.

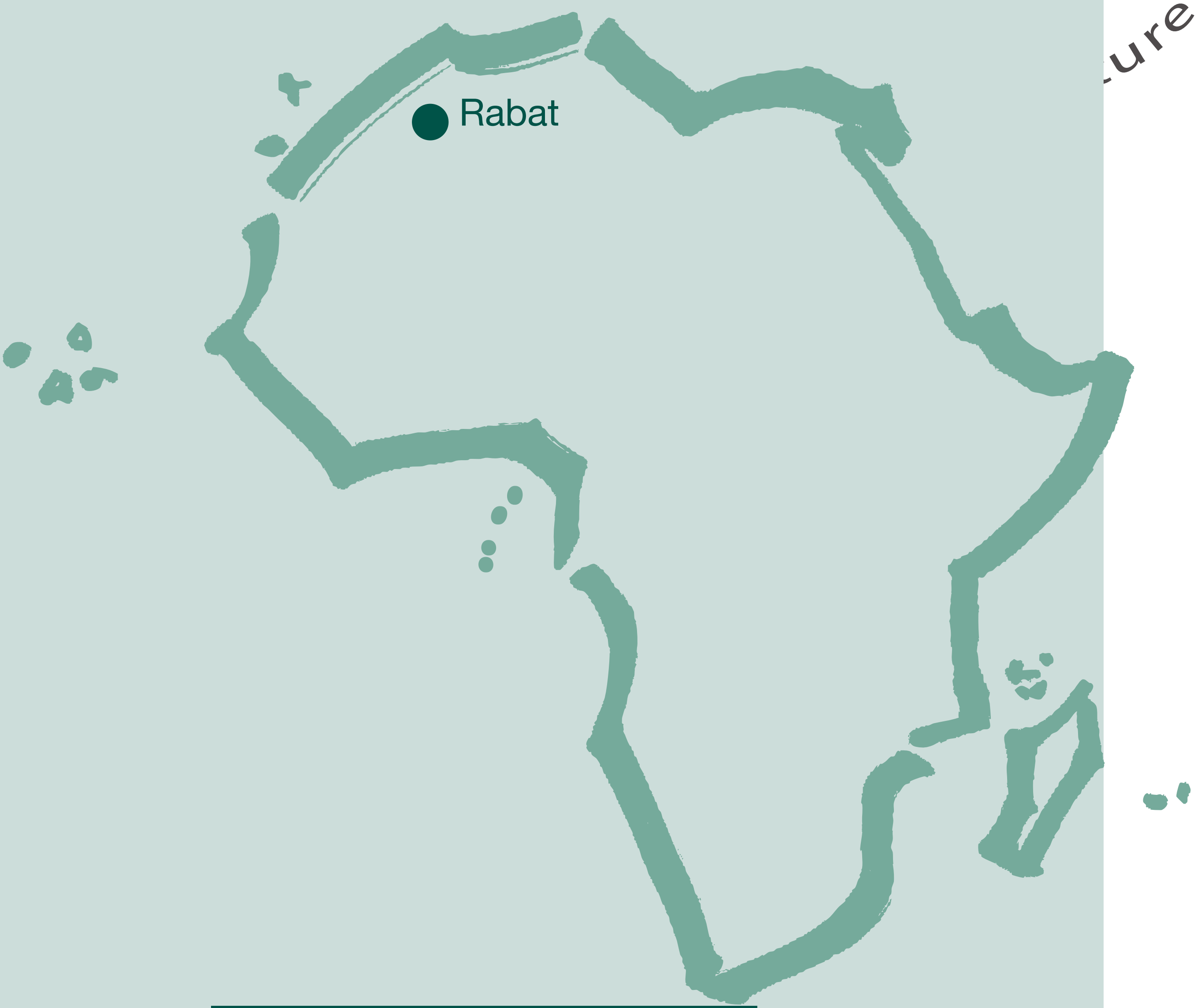
After being ranked 54th out of 145 countries by Transparency International in 2004 for its level of corruption perception, Mauritius has progressed to 51st position (out of 158 countries) in 2005. The index rating of Mauritius has improved marginally from 4.1 to 4.2 per cent during this period. However, although Mauritius has improved its score over the past two years, it still ranks below other African countries with similar levels of economic development (Botswana, Tunisia and South Africa).

Steps have been taken to reduce the incidence of corruption. In February 2002, the Mauritian parliament passed an act to establish the Independent Commission Against Corruption (ICAC). ICAC's mandate is to fight against money-laundering and corruption. Since its inception, ICAC has endeavoured to try some high-profile alleged corruption cases in court. However, ICAC has been dogged by procedural issues and its success rate has been quite low. One such case was the disappearance of 800 million rupees from the National Pension Fund account held at Mauritius Commercial Bank between 1988-2003. The case was still being tried in 2005. ICAC has also been facing staffing issues and it has been difficult to find a suitable candidate who is willing to head the Commission. In 2005, the ex-minister for social security was tried and sentenced for alleged corruption. He was found guilty of taking approximately 1 million rupees from a 1998 contract for just over 100 000 protective mattress covers.

More responsibilities have been divested to other levels of government. In that regard, it is noteworthy that more administrative independence has been granted to Rodrigues Island, located 560 km east of Mauritius with a population of nearly 35 000. For some time, the inhabitants of this small island had been asking for greater autonomy from Mauritius.

In summary, the long-term challenges facing Mauritius are daunting. The trade preferences and market protection on which Mauritius has built its success are being eroded. The elimination in December 2004 of the global quotas on clothing under the Multi-Fibre Arrangement has exposed the local textile sector to competition from other exporting countries, including those in Asia and South America. Finally, the new EU Sugar Protocol and future multilateral liberalisation will probably reduce the profitability of the Mauritian sugar industry. A complete reappraisal of the role of the government and a greater opening of local markets are required for Mauritius to regain the growth rate it achieved in the 1990s.

Morocco



key figures

• Land area, thousands of km^2	447
• Population, thousands (2005)	31 478
• GDP per capita, \$ PPP valuation (2005)	4 832
• Life expectancy (2000-2005)	69.5
• Illiteracy rate (2005)	46.5

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/574814866518

Morocco

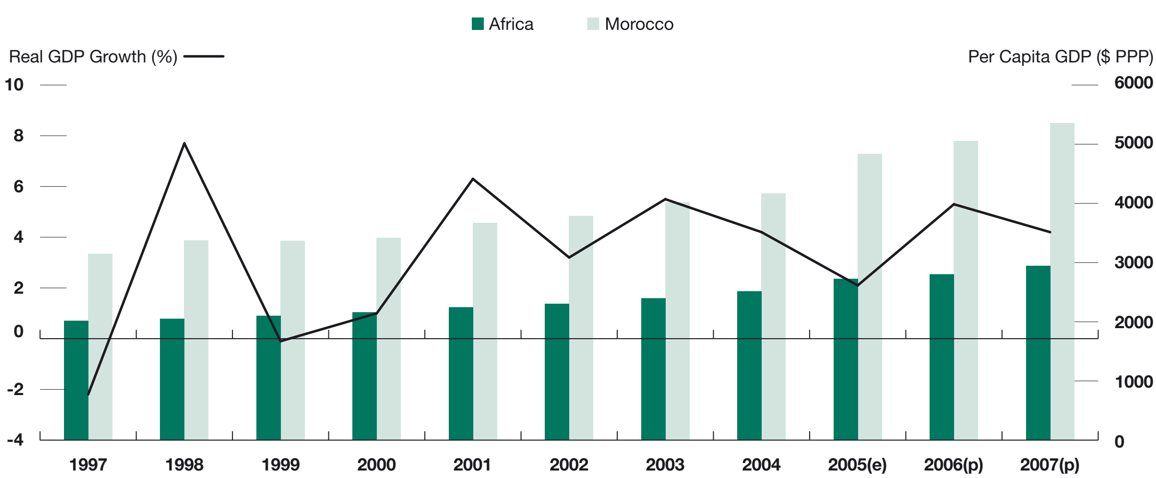
After having performed comparatively well in 2004, the Moroccan economy suffered a setback in 2005 with real GDP growth estimated at 2.1 per cent. However, a recovery to 5.3 per cent is expected in 2006. In 2005, inflation was contained at 2.1 per cent and national unemployment reduced to 10.9 per cent. Public debt reached 75 per cent of GDP, down from 76.7 per cent in 2004, while foreign debt decreased to 25 per cent of GDP. Finally, the budget deficit increased to 4.5 per cent of GDP in 2005, but is expected to decline to 3.2 per cent of GDP in 2006.

Although reasonably encouraging, the results achieved by Morocco over the past few years remain insufficient in the face of the domestic and foreign challenges facing the country. Poverty, unemployment and social exclusion remain pervasive.

In response to these challenges, the government has implemented a series of policy measures. It significantly improved the business environment, reenforcing policies aimed at strengthening property rights and reforming labour regulations. It also signed several free-trade agreements with a view to strengthening exports and stimulating inward investment, and is preparing to launch a comprehensive reform of the agricultural sector to reduce its dependency on rainfall. However, major efforts are still needed to reduce the budget deficit in the medium term. The government also needs to persevere with structural reforms if the country is to achieve sustainable growth.

Overall economic activity has been quite erratic in 2005 following insufficient rainfall and negative external factors that significantly dampened the country's growth performance.

Figure 1 - Real GDP Growth and Per Capita GDP
($ PPP at current prices)



Source: IMF and National Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

Economic growth was generally poor in 2005 due to insufficient rainfall and negative external factors. Consequently, real GDP grew at only 2.1 per cent in 2005, well below the rates of 5.5 per cent and 4.2 per cent achieved in 2003 and 2004, respectively. However, a recovery is expected in 2006 with real GDP growing at 5.3 per cent. Non-agricultural GDP grew at 5.3 per cent in 2005, but is expected to grow by only 4.5 per cent in 2006.

In 2004, the primary sector registered a real growth rate of 1.9 per cent (compared with 18 per cent in the previous year) despite a significant decline in the fishing sector output. However, the sector contracted by 12.5 per cent in 2005 as a result of insufficient rainfall. The agricultural and fishing sector accounted for 13.3 per cent of GDP in 2005, down from 15.3 per cent in 2004. The sector's performance is nonetheless expected to improve in 2006, growing at 11.6 per cent and contributing 13.9 per cent to the country's growth. Cereal production reached 85 million quintals in 2004, up 8 per cent compared with 2003. Similarly, livestock activity increased by 6.9 per cent in 2004. Conversely, citrus fruits production declined by 13.5 per cent in 2004, and the performance of the fishing sector dropped by 8 per cent for the third consecutive year following the extension of the biological rest period.

In 2005, agricultural output is estimated to have contracted by up to 40 per cent in volume and up to 20 per cent in value as a result of below-average rainfall throughout the year. The exceptionally cold weather witnessed in January and February, and the extremely hot and dry weather recorded in March damaged many crops and delayed the harvesting of cereals. Consequently, cereal production in 2005 amounted to 42 million quintals, down almost 50 per cent in comparison with 2004. The authorities hope for an increase in cereal production, to 60 million quintals, in 2006. The strong heatwave experienced by the country in 2005 also had adverse effects on milk production, which fell by 10 per cent, and reduced the olive oil sector's output by 50 per cent.

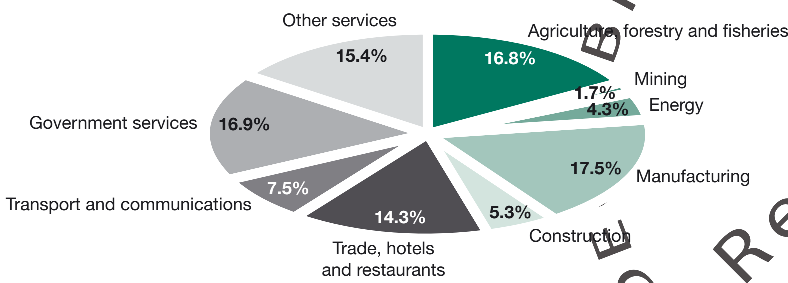
Fish production, on the other hand, remained constant in volume terms but increased by 17 per cent in value terms during the first quarter of 2005. The new fishing treaty signed between Morocco and the EU to replace the one which expired in November 1999 will come into effect in March 2006. It will grant EU trawlers access to the Moroccan Atlantic waters for four years in return for an annual payment of 36 million. Each year, 14 million will be spent to upgrade and restructure the Moroccan fishing sector, which employs 400 000 people and accounts for 16 per cent of the country's exports.

The secondary sector continued on a positive trend in 2004, recording a growth performance of 4.9 per cent compared with 2.6 per cent in 2003. The positive trend persisted in 2005, especially in the energy and mining segments, reaching 4.4 per cent, and is expected to strengthen in 2006 at a rate of 4.5 per cent. The secondary sector accounted for 29.6 per cent of GDP in 2004. The industrial production index and the mining production index rose by 5.5 per cent and 8.6 per cent respectively during the third semester of 2005 compared with the same period last year, while exports of phosphates, phosphoric acid, and fertilisers had strengthened by 32.4 per cent, 25.6 per cent and 8 per cent respectively, by the end of July 2005.

Fuelled by strong domestic demand, energy production improved in 2004 by 11.2 per cent following the restoration of the Samir's production capacity. Electricity production increased by 9 per cent during the first half of 2005. The overall energy sector growth rate is, however, estimated to have slowed to 6.9 per cent in 2005. The energy production index rose by 6.5 per cent in the third quarter of 2005, mainly due to the 11.4 per cent increase in the production of electricity. In September 2005, the Spanish-Argentine oil and gas group, REPSOL, started talks with the Moroccan authorities for the construction of a second refinery on the Atlantic coast between Casablanca and Rabat. With a refining capacity of more than 100 000 barrels per day, the 500 million project could be completed in 2008 or 2009, and would supply the Spanish and North African markets. However, no final decision has been taken yet concerning this project.

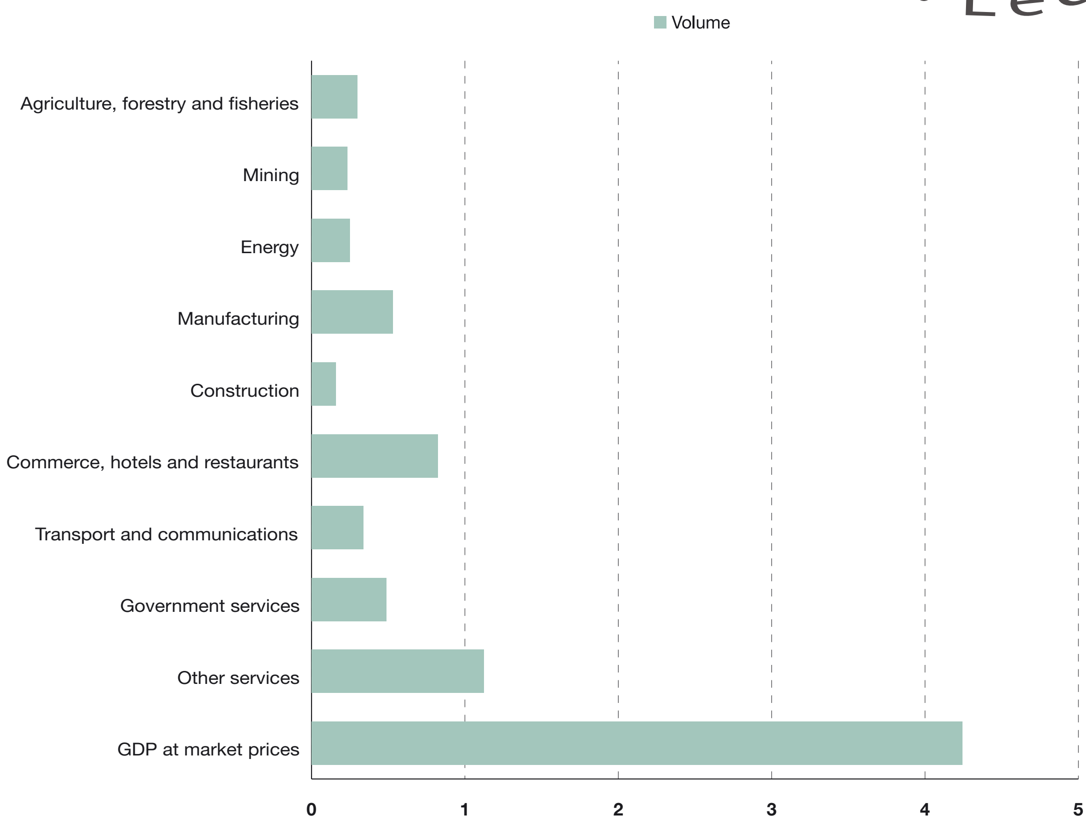
The construction and civil engineering sector continued to expand in 2005, recording growth of 6.5 per cent, up from 3.5 per cent in 2004. The sector's performance is mainly the result of the government's various initiatives to resolve the problem of shantytowns that have mushroomed around the kingdom's major

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

cities, to enhance investment in the tourism sector, and to speed up infrastructure development.

Industrial activity grew by 3 per cent in 2004, but appears to have slowed during the first semester of 2005. This result is due in large part to the decline of the textile sector since the phasing out of the Multifibre Agreement in January 2005. Textile exports declined by 17 per cent in value during the first five months of 2005, and up to 20 000 jobs may have been lost. Official estimates from the Ministry of Industry forecast that as much as 30 per cent of the sector's jobs and 20 per cent of its exports could be lost over the next five years. Despite these mediocre results, big international firms announced plans to invest $300 million in Morocco over the next few years, thus generating 2 500 new jobs.

Among these investments, Fruit of the Loom is investing \$16 million, the Spanish Tavex is planning to spend \$75 million over the next three years, and Legler is investing \$87 million in a denim factory near Rabat. These investments could be explained by the recent vertical international integration policies adopted by the Moroccan government, one result of which was the free trade agreement recently signed with Turkey.

In an attempt to resolve the crisis in the textile sector, the government and the Moroccan Association of Textiles (AMITH) signed an agreement to modernise the textile and clothing industry in October 2005. Called the Textile and Clothing Emergence Plan, this agreement offers an array of measures and facilities supposed to support companies' restructuring programmes. In this context, three agreements dealing with customs, technical support and financing were signed between the government and various industry players.

The tertiary sector, accounted for 55 per cent of GDP in 2004. It displayed a 4.5 per cent growth rate, up from 3.9 per cent in the previous year. The positive results of the sector are linked to the good performance of tourism. The number of visitors topped 5.8 million in 2004, up 15 per cent in comparison with the previous year. This rise is linked to increases of almost 25 per cent and 9 per cent in the number of European tourists and of Moroccans living abroad, respectively, who visited the country in 2004. At the end of November 2005, 5.4 million tourists had visited Morocco, up 5 per cent compared with the same period in 2004. The Moroccans living abroad accounted for more than half of these visitors, reaching 2.53 million. The number of tourist nights amounted to 14.2 million by November 2005, up 16 per cent compared with the previous year. Receipts from tourism amounted to 37.5 billion dirham over the same period, up 18.3 per cent compared with the first eleven months of 2004.

In 2004, transport and communications increased at a rate of 4.8 per cent, whereas commerce grew at 7.2 per cent, up from 3.2 per cent and 4.1 per cent respectively in 2003. Projections for 2005 suggest the transport and communications sectors will continue to grow at 4.9 per cent, whereas commerce will grow at 5.3 per cent.

Following the deregulation of air transport initiated by the authorities, Royal Air Maroc, the national carrier, decided to increase significantly the size of its fleet and invited tenders in June 2005 for four long-haul aircrafts. It also showed interest in penetrating the hotel business through its hotel affiliate, Atlas Hospitality Morocco. It allocated some \$55 million to acquire existing hotels and build new ones in various resorts, including Essaouira and El Hoceima.

Household demand slowed down in 2005 as a result of the poor performance of the agricultural sector. Private consumption rose by 0.7 per cent in real terms, compared with 11.3 per cent in 2004. It is expected to maintain its positive trend in 2006, with an expected growth rate of 4.5 per cent. Public consumption, on the other hand, almost tripled in 2005 compared with

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**20.7**	**22.7**	**24.1**	**25.0**	**23.8**	**24.7**	**25.5**
Public	2.9	2.8	2.6	2.7	2.5	2.6	2.8
Private	17.8	19.9	21.4	22.4	21.3	22.1	22.7
Consumption	**82.6**	**80.4**	**79.8**	**81.2**	**74.5**	**74.9**	**74.1**
Public	17.8	19.4	20.0	20.2	19.1	18.8	18.7
Private	64.9	61.0	59.8	61.0	55.4	56.1	55.5
External sector	**-3.3**	**-3.1**	**-3.9**	**-6.2**	**1.7**	**0.4**	**0.4**
Exports	28.5	33.8	32.5	33.1	39.1	38.2	38.0
Imports	-31.8	-36.9	-36.4	-39.3	-37.4	-37.8	-37.6

Source: National Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

the previous year but is expected to grow at a significantly slower pace in 2006. The overall fiscal deficit increased in 2005, supporting demand, but is expected to be less expansionary in 2006. At constant prices, the balance of payments deficits on goods and non-factor services deteriorated in 2005, further depressing domestic demand. Deterioration in the terms of trade reinforced the deflationary pressure. However, gross fixed capital formation increased at a rate of 4.6 per cent in 2005, taking advantage of the large infrastructure programmes and the investment promotion measures currently implemented by the government, as well as the reduction of import duties on capital goods. It is expected to strengthen further in 2006, with a forecasted growth rate of 5 per cent. This is expected to raise the investment to GDP ratio to 24.7 per cent in 2006, compared with 23.8 per cent in 2005.

Macroeconomic Policies

Fiscal Policy

The Moroccan government managed to maintain its budget deficit to reasonable levels over the period 2001-04, owing mainly to exceptional privatisation receipts. It is however facing strong structural pressures, linked primarily to wages and salaries expenses, as well as external pressures resulting from severe droughts and the significant increase in oil prices, that require serious fiscal discipline in the medium term.

Revenues from public finances increased by 6.6 per cent in 2004 while expenses grew at a rate of 6.3 per cent, causing the budget deficit to reach 3.2 per cent of GDP (5.7 per cent excluding privatisation receipts). The increase in government expenses was the result of a significant rise in oil prices, of the El Hoceima earthquake, and of the locust invasion.

Ordinary revenues, excluding privatisations, amounted to 122 billion dirham or 26.5 per cent of GDP in November 2005, up 17.1 per cent compared with the same period in 2004. They are expected to reach 128 billion dirham or 24.3 per cent of GDP in 2006. Fiscal revenues improved by 8.5 per cent in 2005, following 9.8 per cent and 9 per cent increases in direct and indirect taxes respectively. They are expected to grow at 2.5 per cent and reach 98.7 billion dirham in 2006. Custom proceeds grew at 2.4 per cent in 2005 relative to 2004, despite the dismantling of tariffs undertaken by Morocco to comply with the FTAs it has signed. As far as VAT proceeds are concerned, they have increased by 11.3 per cent compared with 2004, following the 2 per cent and 19 per cent increases in VAT proceeds from the domestic market and imports respectively. These increases are linked to the 14.6 per cent increase in goods and services imports. Customs proceeds are nonetheless expected to decline by 6.9 per cent in 2006 compared with the previous year, as a result of further tariffs removals following the enforcement of the free trade agreements with the United States and

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**25.7**	**24.7**	**24.5**	**25.1**	**24.5**	**24.3**	**24.3**
Tax revenue	23.0	22.9	22.5	22.7	22.2	22.0	22.0
Grants	1.1	1.6	1.6	1.6	1.6	1.6	1.6
Total expenditure and net lending[a]	**29.4**	**29.8**	**30.3**	**30.8**	**29.0**	**28.8**	**28.9**
Current expenditure	25.1	23.9	24.0	24.2	22.7	22.3	22.0
Excluding interest	*19.7*	*19.5*	*19.9*	*20.3*	*19.2*	*18.9*	*18.8*
Wages and salaries	11.3	12.2	12.7	12.8	12.0	11.7	11.5
Interest	5.4	4.4	4.1	3.9	3.6	3.4	3.2
Capital expenditure	4.4	6.0	6.3	6.7	6.3	6.5	6.9
Primary balance	**1.8**	**-0.7**	**-1.7**	**-1.8**	**-1.0**	**-1.1**	**-1.4**
Overall balance	**-3.6**	**-5.1**	**-5.8**	**-5.7**	**-4.6**	**-4.5**	**-4.6**

a. Only major items are reported.
Source: Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

Turkey on 1 January 2006 and July of the same year respectively. Non-fiscal revenues, on the other hand, totalled 16.6 billion dirham in 2005 and should reach 19.5 billion dirham in 2006. In order to stabilise receipts and improve the fiscal system in Morocco, the authorities intend to implement a set of reforms that will simplify the VAT, enlarge the tax base and reduce fiscal exemptions.

Privatisation receipts are expected to amount to 7 billion dirham and 4.95 billion dirham at the end of 2005 and 2006 respectively. These will be generated following the sale of Comanav, Somathres, and the remaining 20 per cent of Régie des Tabacs.

Total expenditures totalled 138.9 billion dirham in 2005 and are expected to decline by 4.4 per cent to 115.7 billion dirham in 2006 after the completion of the "voluntary departure" programme initiated by the government to alleviate its expenditures on salaries. Expenditures on goods and services will decrease by 6.3 per cent in 2006, while other current expenditures are expected to fall by 16.6 per cent compared with estimates for 2005. Compensation charges totalled 8.7 billion dirham in 2005, and are expected to decline slightly by 0.3 per cent to 8 billion dirham in 2006. The larger share of these charges (81 per cent) is allocated to energy products.

Investment expenses totalled 18 million dirham at the end of 2005, equivalent to 6.3 per cent of GDP. They are expected to increase in line with GDP in 2006. At the end of 2004, 83 conventions were signed with the Hassan II Fund for a total amount of 11.9 billion dirhams. These conventions involved projects in low-cost housing, ports and maritime infrastructure, highways and roads, and the industrial sector. Combining public entities' investments with those undertaken through the Hassan II Fund will amount to a total public investment of 78 billion dirhams in 2006.

Official figures therefore suggest that the overall budget deficit amounted to 4.6 per cent of GDP in 2005 and should decline in 2006. At the end of 2005, outstanding direct treasury debt stood at 70.8 per cent of GDP (compared with 66.4 per cent in 2004) and is expected to remain at 70 per cent of GDP in 2006.

Monetary Policy

Excess liquidity persisted in 2005. Money supply (M3) grew at 11.4 per cent in 2005, up from 7.6 per cent in 2004 and 8.7 per cent in 2003. Quasi-money, on the other hand, contracted by 0.9 per cent over the first quarter of 2005 while M1 increased by 4 per cent. Lending to the private sector accelerated by 6.3 per cent over the first five months of the year compared to 6 per cent for the whole year of 2004. Net claims on the government declined in 2005, essentially as a result of the sale of a further stake in Maroc Telecom to Vivendi at the end of 2004.

Inflation was kept down to 2.1 per cent in 2005, compared with 1.5 per cent in 2004. Food prices grew by only 0.7 per cent in 2005, following the good performance of the primary sector in 2003-04. Inflation is expected to be contained around the same level in 2006 and 2007.

Finally, the Moroccan currency appreciated by 0.7 per cent against the euro in 2005 and by 4.6 per cent against the US dollar.

External Position

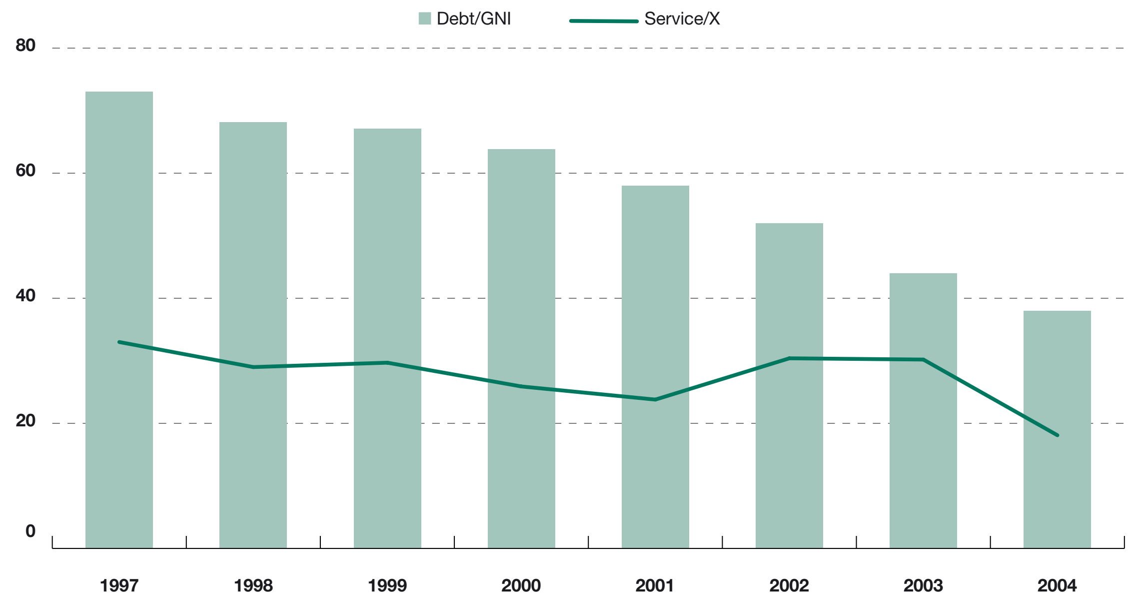
As expected, Morocco's export performance worsened in 2005, after the phasing out of the MFA in January 2005 and the resulting increased competition from Asian countries textile producers. Export earnings fell by 6 per cent in value compared with the same period in 2004. This downturn is related primarily to a 17 per cent decline in clothing exports, Morocco's largest export sector. But clothing exports were not the only goods to experience a decline. Exports of electrical wires and cables also fell by 26 per cent in value over the same period, as did citrus fruits and other fruits (-20 per cent and -68 per cent respectively), and tomatoes (-7 per cent). Conversely, phosphates and phosphate derivatives, along with fish exports grew by 9 per cent and 22 per cent respectively over the first five months of 2005. The European Union and France in particular,

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-7.4	-8.5	-9.9	-13.0	-12.8	-13.8	-14.0
Exports of goods (f.o.b.)	21.1	21.7	20.0	19.5	18.2	17.6	17.2
Imports of goods (f.o.b.)	-28.5	-30.2	-29.9	-32.4	-31.0	-31.4	-31.2
Services	4.0	5.4	6.0	6.8			
Factor income	-3.5	-2.0	-1.8	-1.3			
Current transfers	6.6	9.2	9.4	9.7			
Current account balance	**-0.3**	**4.1**	**3.6**	**2.2**			

Source: Ministry of Finance and Privatisation data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

remain the main destinations for Moroccan products, as they absorb 73.3 per cent and 33.1 per cent respectively of the country's exports.

Exports are expected to improve in 2006, growing at a rate of 6.1 per cent (compared with 1.3 per cent in 2005 and 4.8 per cent in 2004) as the free trade agreements (FTA) with the United States and Turkey come into effect. The US-Morocco FTA was scheduled to come into effect on 1 January 2005, but has been delayed to January 2006, waiting for Morocco to harmonise its legislation with the FTA requirements. The agreement calls for the immediate elimination of tariffs on 95 per cent of bilateral trade in consumer and industrial goods, and for the removal of the remaining tariffs on vulnerable Moroccan industries over a period of nine years.

Imports, in contrast, rose by 13.2 per cent in 2005 (6.1 per cent excluding oil imports), but are expected to grow at a slower pace in 2006 (9.2 per cent) due in large part to the increase in oil prices. The 36 per cent surge in the cost of oil imports witnessed over the first five months of 2005 compared with the same period in 2004 accounts for 70 per cent of the extra cost of imports, while imports of semi-finished goods, steel, chemicals and plastics rose by 11 per cent, 20 per cent, 16 per cent and 39 per cent respectively over that period.

The combination of the sharp decline in exports and the rise in imports produced a trade deficit of 12.8 per cent of GDP in 2005. The resulting current account deficit amounts to 1.2 per cent of GDP, despite increases in tourism receipts (up 7 per cent) and workers remittances (up 4.6 per cent). The coverage rate of imports by exports is expected to fall below 50 per cent by the end of 2005, and to settle at 48.4 per cent in 2006, following rates of 62 per cent and 55 per cent in 2003 and 2004, respectively.

In 2004, the overall balance of payments registered a surplus of 2.3 per cent of GDP, up from 0.8 per cent in 2003. The country's external debt was brought down to 25 per cent of GDP at the end of 2005, compared with 26 per cent in 2004. Official reserves, on the other hand, amounted to 11 months of imports at the end of November 2005, up from ten months of imports at the same period in 2004.

Structural Issues

In the current context of trade liberalisation and enhanced international competition, the Moroccan authorities are fully aware of the need to accelerate structural reforms and improve transport infrastructures.

Recent Developments

Initiated in 2003, the privatisation process has so far generated 76.7 billion dirham in revenues to the government and led to the liberalisation of key sectors in the economy, including telecommunications, agribusiness, cement, steel and tourism. In late 2005, 70 entities out of 114 initially listed for sale have been privatised, including 44 companies and 26 hotels. The sale of Maroc Telecom (MT) and Régie des Tabacs in 2000 and 2003 respectively were by far the largest privatisation operations realised by Morocco. As far as MT is concerned, Vivendi Universal acquired 51 per cent of the telecom company in two steps, first purchasing 35 per cent of MT in 2000 for $2.3 billion, and then 16 per cent in 2005 for $1.2 billion. In 2004, the government also introduced 14.9 per cent of the telecom company's capital simultaneously on the Casablanca and Paris stock markets, raising $800 million. The Spanish group, Altadis, on the other hand, acquired 80 per cent of the state tobacco monopoly company, the Régie des Tabacs, in 2003, after paying a price tag of $1.2 billion. The most recent privatisation operation took place in September 2005, with the sale of four state sugar companies to the Moroccan holding, ONA, for 1.367 billion dirham ($150 million). The privatisation trend is expected to continue in 2006, bringing in 4.8 billion dirham in revenue to the government.

The agricultural sector remains a key sector in the Moroccan economy, and the government is still struggling to face the challenges resulting from insufficient rainfall and poor management of available water resources. The sector currently employs 45 per cent of the country's workforce but only accounted for 15.3 per cent of GDP in 2004. In addition, poverty is most pervasive in rural areas, exacerbated by the frequent droughts that hit the country over the past decade. Rain-fed production of cereals and vegetables represents around 80 per cent of the country's farming and is mainly produced by small-scale farms with low-level technology means. Conversely, citrus and other fruit crops, which are the country's sixth largest foreign currency earners, are less dependent on weather vagaries, as these are produced on medium- to large-scale farms with modern technology and means of production. In order to tackle the water management problem, the government, with the support of the International Financial Corporation (IFC), has recently signed a partnership with ONA to construct and manage an irrigation network to channel water from a dam directly to farmers, providing them with water at lower prices than those they currently pay.

In addition, the government launched a new plan in 2005 to upgrade the agricultural sector and resolve the crisis currently faced by the sector. The reform programme will require a budget of 2.6 billion dirham per year for the next three years, and is intended to prepare the country for the opening of the sector to foreign competition subsequent to the implementation of the EU and US trade agreements. The measures proposed by the authorities to support the agricultural sector include the cancellation of the debt of 100 000 peasant farmers and the exemption from overdue interest and late-payment penalties of larger farms. The government is also seriously considering measures to restructure the agricultural sector so as to encourage irrigation and thereby reduce its reliance on rainfall. Among the suggested approaches are plans to convert some 2 million ha from rain-sensitive cereal production to other crops, as well as the provision of subsidies for the planting of olive oil trees and other tree fruits, medicinal plants, carobs and spices. Whether these plans will be successful depends heavily on the authorities' ability to mobilise the necessary funding and to overcome the bureaucratic hurdles that have prevented earlier restructuring plans from being implemented. Official projections from the Ministry of Finance suggest nonetheless a better performance of the primary sector which is expected to grow by 11.6 per cent in 2006, with cereal production expected to reach 60 million quintals.

The EU market remains the main destination for Morocco's agricultural exports. However, increasingly complex EU regulations in terms of health and sanitary requirements, as well as packaging and traceability, have prevented Moroccan exporters from filling their EU quotas.

The Moroccan authorities have undertaken a series of reforms to reinforce private enterprises' competitiveness and enhance job creation. Launched in the early 1990s in collaboration with the EU, the programme to upgrade private businesses did not meet expectations. As a result, the government decided to implement a series of new measures to allow these businesses to become better equipped to meet the competitive challenges lying ahead. The loosening of the requirements to start a new business, the assistance to the creation of new enterprises, the encouragement of entrepreneurship and the provision of new financial tools for new ventures creation are all measures adopted following the *Initiatives d'Emploi* held in September 2005. The main purpose of these mechanisms is to alleviate unemployment and eventually lead to the creation of 200 000 jobs by 2008.

As far as financing is concerned, a new fund for self-employment assistance was put in place in 2005 by the government, in collaboration with the Caisse Centrale de Garantie (CCG). This fund is dedicated to the creation of new enterprises requiring a maximum investment of 250 000 dirham. It finances up to 10 per cent of the project free of interest, with the remaining 90 per cent supplied by banks and guaranteed by the CCG.

The Moroccan authorities also adopted measures to improve the overall business environment, introducing new reforms to the judicial system. A new Labour Code was adopted in June 2004, following the implementation of a new law on the protection of Industrial and Intellectual Property.

The financial sector has witnessed a wide range of reforms since 2003, following the first wave of reforms implemented in the 1990s. The new law defining the status of Bank Al-Maghrib (BAM), the Moroccan central bank, was adopted by the parliament in 2005, and a new banking law is currently under discussion. New financing mechanisms are also being put in place to help businesses improve their balance sheets.

As far as prudential regulation is concerned, the new Basle II solvency ratio will be adopted by the end of 2006 to prevent bank runs and improve financial sector stability. A new "Centrale des Bilans" will also be put in place by BAM in collaboration with the IFC to monitor credit risks and improve the quality and transparency of the financial information provided by the companies.

Concerning micro-credit, the authorities have revised the relevant law governing the activities of micro-finance associations, allowing them to expand their activities, including the provision of housing loans to underprivileged individuals. New measures to allow these institutions to provide micro-savings and micro-insurance are also under consideration. The goal is for these associations to reach 1.5 million borrowers (up from 500 000 in 2004) and a loan portfolio of 5 000 000 dirham by 2010.

Transport Infrastructure

In 2005, the transport sector in Morocco contributed around 6 per cent to GDP, supplied 15 per cent of the state budget revenues and accounted for around 25 per cent of national energy consumption. In March 2003, the government launched a vast Transport Sector Reform Program (TSRP). The programme aims at improving the contribution of the transport sector to the national economy through: *i)* the modernisation of the transport infrastructure network; *ii)* the increased autonomy of the various national offices regulating the sector; *iii)* the gradual privatisation of public enterprises and the encouragement of private sector investment in transportation; and *iv)* the definition of an integrated road safety strategy. In order to implement its TSRP, Morocco secured financing in 2004 from the African Development Bank in the form of a budget support loan of 240 million, and from the European Union in the form of 90 million grant.

The programme aims at liberalising the road transport sector, renewing the vehicle fleet, improving road safety and reducing transport costs. The road network currently spreads over 60 500 km of roads and highways, including 32 080 km of paved roads. In 1995, the government had already begun a National Rural Road Program aimed at constructing 11 236 km of rural roads by 2005, followed by a Second Rural Road Program to construct 15 000 km between 2005 and 2015. By September 2004, 75 per cent of the first Rural Road Program was completed, and by the end of 2005, 9 276 km out of the 11 236 initially planned were completed. The goal of the second programme is to complete 1 500 to 2 000 km a year, therefore increasing rural populations' road accessibility to 80 per cent, compared to less than 50 per cent currently. The government also plans to finish the construction of the 550 km Mediterranean bypass linking Tangiers and Saïdia by 2009.

With regard to highway infrastructure, the Ministry of Equipment and Transport has set itself the task of pursuing the construction of 400 km of highway between 2003 and 2007, completing 1 500 km of highways by 2010. The Asilah-Tanger motorway was completed over the summer of 2005, whereas the Tétouan-Fnideq motorway (28 km), the Settat-Marrakech motorway (145 km) and the Tangier-Mediterranean Port motorway are supposed to be completed by 2009. The Marrakech-Agadir motorway (233 km) is programmed to start in 2005 and be completed by 2009, whereas the construction of the Fes-Oujda axis is scheduled to take place over the period 2006-10.

Morocco currently has 26 ports – 6 pleasure harbours, 9 ports dedicated to fishing and 11 to international commercial activities. The port of Casablanca is the country's largest port, accounting for 40 per cent of overall national traffic. This port handles mainly sundry goods, whereas Mohammedia specialises in oil traffic, Agadir in fish as well as fruit and vegetables, Safi and Jorf Lasfar in minerals, Tangiers in passenger transport, and Nador in steel, mining and food processing industries. In 2004, the country's ports handled 61.5 million tons of goods, up 6.9 per cent compared with the previous year. Morocco is highly dependent on its ports for imports and exports. Imports accounted for 55 per cent of the overall traffic, while exports made up the remaining 45 per cent in 2004. Since 1980, the ports' overall shipping volume has been growing at an annual average growth rate of 5 per cent. The share of trade that transits by sea exceeds 90 per cent.

Morocco plans to extend its port capacity, encourage greater private sector participation in port commercial activities, reduce port transit costs, and strengthen the competitiveness of the national shipping lines. As part of its reform programme, Morocco launched a 12 billion dirham ($1.37 billion) construction of the Tangier international new port "Tangier Mediterranean". Located on the Strait of Gibraltar, 35 km east of Tangiers and 15 km from Europe, the Tanger-Med project is a 500 km^2 Special Economic Zone at the crossroads of major shipping lanes. Scheduled to be completed by 2007, this project will include a multi-purpose harbour, several customs free zones, and modern transport and service infrastructure. The operations of the first container terminal were awarded by tender to a consortium led by Maersk, in partnership with the Moroccan conglomerate Akwa. Other tender offers have been or will soon be launched for the second container terminal, and for the petrol and truck-loading terminals.

The support and strengthening of the Moroccan fleet constitutes one of the strategic objectives of the TSRP given the current state of the national fleet which is very limited in size and fairly old. The three main operators in the sector are Comanav, the state shipping company, with 14 ships, Marphocean, with 6 ships and IMTC with 8 ships. The country owned an overall merchant fleet of 44 units in 2004.

As far as air transport is concerned, the TSRP aims at liberalising the sector, removing the monopoly enjoyed so far by Royal Air Maroc, and reducing ground services costs. It also seeks to improve airport safety and security. Partial air-sector liberalisation was launched in February 2004. These reforms are meant to make Casablanca Mohammed V airport a hub for the entire North and West African region, as well as help the kingdom achieve its plan to attract 10 million tourists by the year 2010. The country has 28 airports, three of which (Casablanca, Marrakech and Agadir) account for over 90 per cent of the traffic. There were 12 new companies operating in the Moroccan skies in 2005, while a new national low cost company called Atlas Blue (a subsidiary of Royal Air Maroc) was launched in 2004 to service major tourist destinations in Morocco through charter and scheduled point-to-point flights. As a result, passenger traffic increased by 14.6 per cent between 2003 and 2004, up from 6.7 million to 7.69 million passengers, respectively. Freight traffic amounted to 54 372 tons in 2004, up 7.5 per cent compared to the previous year. Royal Air Maroc accounted for 64 and 59 per cent of global passenger and freight traffic respectively. Passenger traffic is forecast to rise by 300 per cent to 16.5 million by 2010. Scheduled flights are expected to increase at an average of 80 new flights per year, reaching 1 300 per week by 2010.

Concerning the rail network, the National Rail Office, the Office National des Chemins de Fer (ONCF), currently manages the overall rail traffic in Morocco, operating on a 1 907 km rail network. It offers both commuter trains between the cities of Casablanca, Rabat, Kenitra and El Jadida, and long-distance trains linking the major cities throughout the country. The office runs 104 commuter trains and 45 long-distance trains per day, and carried 18.5 and 22 million passengers in 2004 and 2005 respectively. Merchandise and phosphate rail transportation amounted to 32.72 million tons in 2004.

The TSRP includes various measures to upgrade the sector, including the acquisition of 18 multi-unit trains, the double-tracking of the rail network up to Fez, Settat and Jorf Lasfar to increase the number of departures to one per hour and reduce the journey time to those cities. Projects underway also include the extension of the overall rail network to add new links to Nador and the Tanger-Med port and to upgrade the existing train stations. The reform programme required ONCF to commit itself to restoring financial equilibrium within five years in return for an injection of funds from the government to help the office initiate a restructuring programme. The first step of the programme in 2003 was to begin the conversion of ONCF from a public agency into a public company controlled by the state under the name of Société Marocaine des Chemins de Fer (SMCF). Once the transformation is completed, the new entity will be granted more financial authority and will sign a 35-year contract with the state to run the national rail network. Privatisation of SMCF is also envisaged in the long run, as well as the opening of certain networks not presently used by SMCF to private operators for tourism and rail freight purposes.

Political and Social Context

Since coming to power in 1999, King Mohammed VI has prompted important social and political reforms. During his Throne Speech of 2003, the King outlined seven priorities to be tackled for the following five years. Apart from resolving the everlasting Sahara dispute, enhancing "democratic transition", and promoting citizenship through education and religious reform, the monarch insisted on the need to improve the social climate through the adoption of a new labour code, the introduction of a mandatory welfare and health insurance, and the implementation of anti-poverty measures and of larger social housing programmes. He also prompted the government to consolidate rural development, support the agricultural sector, and turn Morocco into a "modern, productive, inclusive and competitive economy" significantly integrated in the world market, the ultimate objective being to make Morocco a "regional pole and an active international actor".

The government adopted a new labour law in 2004 meant to stimulate investment, consolidate individuals' fundamental right to employment, improve the management of social conflicts and align the Moroccan legislation with international standards. Unemployment is a major challenge for the Moroccan authorities, especially among young people. In 2004, the unemployment rate among young graduates was 25.6 per cent, whereas 15.4 per cent of Moroccans aged between 15 and 34 years were jobless, down from 18.9 per cent in 2003. The national unemployment rate amounted to 10.9 per cent in 2005, compared with 10.8 per cent and 11.6 per cent in 2004 and 2003 respectively.

Starting in November 2005, the government also implemented the Mandatory Health Insurance designed to provide health cover to 7.8 million people. Currently, only 16 per cent of the population have health insurance, and most of them live in urban areas and work for the public sector. The budget allocated to the health sector, which amounted to 5.2 per cent and 5.01 per cent of the government total budget in 2004 and 2005 respectively, is insufficient to meet the needs of the population. Data for 2005 reveal that there is one doctor for every 1 845 Moroccans, and one basic healthcare institution for every 12 033 citizens. Currently, the country has 126 public hospitals and 2 484 basic healthcare institutions. There are 16 307 doctors in the country, 57 per cent operating in the public sector. There are also 15 400 qualified nurses. Life expectancy averages 71 years, the birth rate declined to 20.4 per thousand from 22.4 per thousand in 2000, and the mortality rate was 5.5 per thousand in 2004 compared with 6.1 per thousand in 2000. The government intends to allocate a budget of 6.08 billion dirham to healthcare in 2006.

A Support Program to Reform the Education Sector in Morocco (PARSEM) was implemented at the start of 2005 to enhance the quality of school education and improve school retention rates. Although public spending on education exceeded 6 per cent of GDP and made up 28 per cent of the government budget in 2004, the schooling system in Morocco suffers from deep inefficiencies and strong disparities between genders and social groups. Consequently, PARSEM introduced measures to improve the quality of education and broaden the use of new information and communication technologies in schools. These measures include among other things the revision of school curricula, as well as the development of school and professional information and orientation centres, and the provision of training programmes for teachers and school supervisors. The support programme also undertook major actions to improve school attendance, especially for young girls, including the construction of new schools in localities with more than 200 inhabitants where schools were not available, the provision of school supplies to pupils from destitute families, and the building of residence halls in rural areas to encourage secondary and high school attendance.

In May 2005, King Mohammed VI launched a new programme aimed at reducing inequalities and poverty, and improving human development in Morocco. Labelled the National Initiative for Human Development (INDH), this programme has three main priorities: *i)* to strengthen the fight against poverty in rural areas; *ii)* to reduce social exclusion in urban localities; and *iii)* to intensify the fight against precarious living conditions. The programme against poverty in rural areas will target 360 priority localities where the poverty rate exceeds 30 per cent, and will aim to reduce this rate to 10 per cent, to lower the illiteracy rate to 20 per cent, to reach a 75 per cent girls schooling rate, and to provide drinking water and electricity to at least 95 per cent of the population living in those areas. As far as social exclusion is concerned, the INDH programme will first be implemented in the 250 poorest urban districts, and will include upgrading basic infrastructure and improving access to health and socio-educational facilities, creating opportunities and income generating activities, and supporting people deemed to be extremely vulnerable. Finally, the programme against precarious living conditions is intended to help homeless young people, abandoned children, women living in precarious conditions, beggars and vagabonds, former inmates, disabled people with no income and destitute old people by placing them in specialised centres and preparing them for their future economic and social rehabilitation.

The government also implemented several measures to improve governance in Morocco. The ongoing measures include reforming the legal system and reinforcing transparency, restructuring and consolidating governance in state entities, carrying on the privatisation process, and upgrading public administration.

Mozambique

key figures

• Land area, thousands of km^2	802
• Population, thousands (2005)	19 792
• GDP per capita, $ PPP valuation (2005)	1 469
• Life expectancy (2000-2005)	41.9
• Illiteracy rate (2005)	49.6

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/771004274620

Mozambique

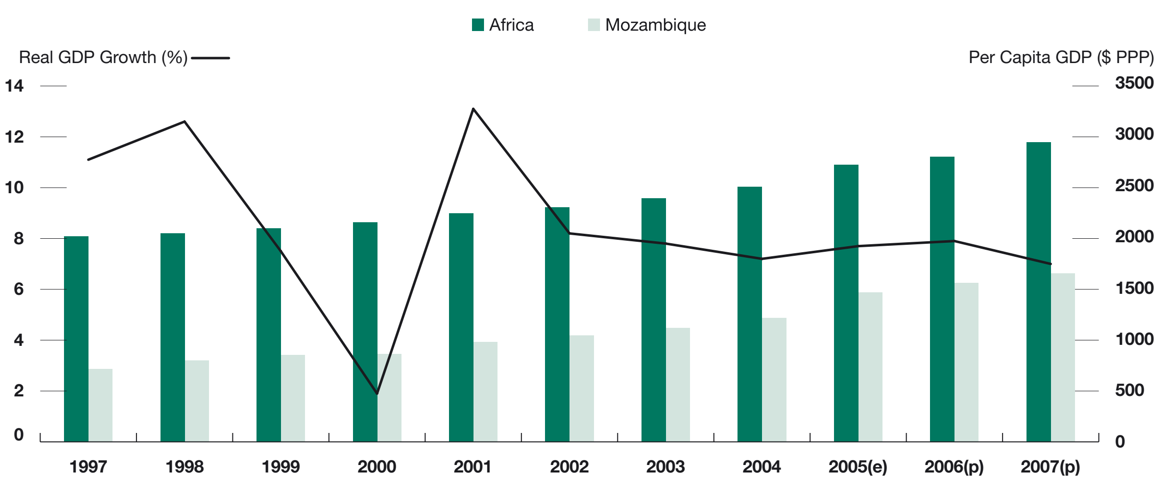
MOZAMBIQUE REMAINS A MODEL of successful post-conflict transition, with impressive economic growth averaging 8 per cent over the past decade and sustained political stability. Strong economic growth, reaching 7.7 per cent in 2005, continues to be driven primarily by foreign-financed "mega-projects" and large aid inflows. Agriculture is also increasingly contributing to economic growth, despite a drought that has caused severe hardship in the southern part of the country. The outlook for 2006 and 2007 is favourable, with growth expected at 7.9 and 7.3 per cent respectively, sustained by a new wave of mega-projects in titanium mines as well as strong growth in construction and agriculture.

While Mozambique's recent growth rates are extraordinary, some observers, including Prime Minister Luisa Diogo, worry about the pattern of growth and its sustainability. Despite some progress in boosting agricultural production, achieving broad-based growth remains a key challenge. Capital-intensive mega-projects generate few spillover effects on the rest of the economy, in terms of either job creation or tax revenues, as they benefit from substantial tax holidays. Unemployment and poverty remain critical problems. Furthermore, growth that is not related to mega-projects may begin to moderate, given the absence of comprehensive structural reforms and decreasing post-war reconstruction expenditure.

New mega-projects are sustaining growth but unemployment and poverty persist.

Fiscal management improved in 2005, with increased expenditure in priority sectors such as education, increased tax revenues, and moves towards decentralisation. This progress paved the way for the inclusion of the country in the G8 debt reduction initiative that is expected to halve the net present value of debt to about 10 per cent of GDP.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and National Institute of Statistics data; projections based on authors' calculations.

Nevertheless, structural reform has been slow, notably in public sector human resource management and salary structures as well as in the judicial system. Reflecting in part these delays, the business climate remains unfavourable. The preparation of a new poverty reduction strategy (PARPA II), to be completed in

2006, is expected to address these issues so as to provide a renewed impetus for private sector development and export diversification. It is hoped that PARPA II will also focus on improving the flexibility of the formal labour market and on fostering rural development through increased extension services, irrigation and strengthened micro-finance institutions.

Recent Economic Developments

Mozambique has been one of the world's most rapidly growing economies over the past five years, with much of the impetus coming from reconstruction efforts and extensive foreign investment in natural resources-based projects.

Thanks to increasing foreign investment in sugar and tobacco, agricultural performance has also improved, with output growing at 8.7 per cent in 2004 and 7 per cent in 2005. Nevertheless, for the fourth consecutive year, drought affected the country's arid southern regions, while in the northern and central regions rainfall was abundant. Cereal production was 4 per cent lower in 2004/05 than in the previous season, despite good harvests in the north, due to a 43 per cent fall in output in the southern regions. This shortfall left about 800 000 people in dire need of food aid at the end of 2005. Moving maize from the surplus areas in the north to the south remains very costly due to the poorly functioning internal transportation system, which resulted in a surge in imports of emergency maize, rice and wheat in 2005. The government appealed for $21 million in international food aid, but as of November 2005, the response has been insufficient. The World Food Programme (WFP) was only able to feed about 30 per cent of those in need. Famine relief also suffered from inadequate rural roads, which furthermore are impassable during the rainy season. The situation improved in January 2006, as the WFP managed to distribute emergency food aid to about 700 000 Mozambicans. Despite good rains experienced since October 2005 leading to projected cereal output growth of 6 per cent in 2006, food shortages are likely to remain critical until the next harvest in March 2006.

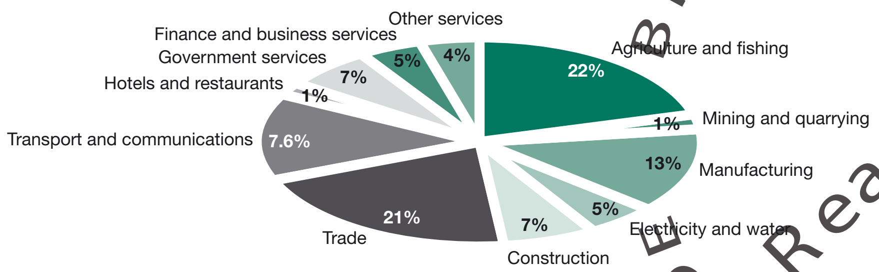
As a longer-term solution to food insecurity, the government has instituted a $2 million plan to boost rice production in the north and drought-resistant crops (e.g. cassava and sweet potatoes) in the southern provinces through the provision of seeds and fertilisers. The PARPA II agriculture development strategy also focuses on raising productivity through increasing extension services and irrigation, improved access to credit, notably by fostering micro-finance institutions, and investment in rural and feeder roads.

In contrast with the diminished production of food crops, production of the main cash crops (cashew nuts, cotton, sugar and tobacco) exceeded the levels of the previous year. Sugar cane production in particular grew by an estimated 3 per cent in 2004/05 following the 130 per cent increase in 2002/03. The sugar production boom is the result of large South African and Mauritian investments of about $300 million for the rehabilitation and partial privatisation of four sugar-processing plants in the Maputo and Sofala provinces, which allowed the country to become a net exporter. Investment by Zimbabwean farmers in Manica province helped lift tobacco production by 20 per cent. Foreign investment in prawn farming also aided the fishing sector, which expanded by 7.7 per cent in 2005, thus reversing a declining trend.

The sugar sector will be affected by the combined effects of the phasing out of the EU's Everything But Arms (EBA) sugar protocol (2006-09) and the overall reform of the EU sugar regime (2006-15). On the one hand, producers will face a gradual but substantial reduction in the EU raw sugar reference price, although it will still be 50 per cent higher than the world price. On the other hand, the phasing out of European import duties on sugar between 2006 and 2009 will increase EU market access for Mozambican sugar.

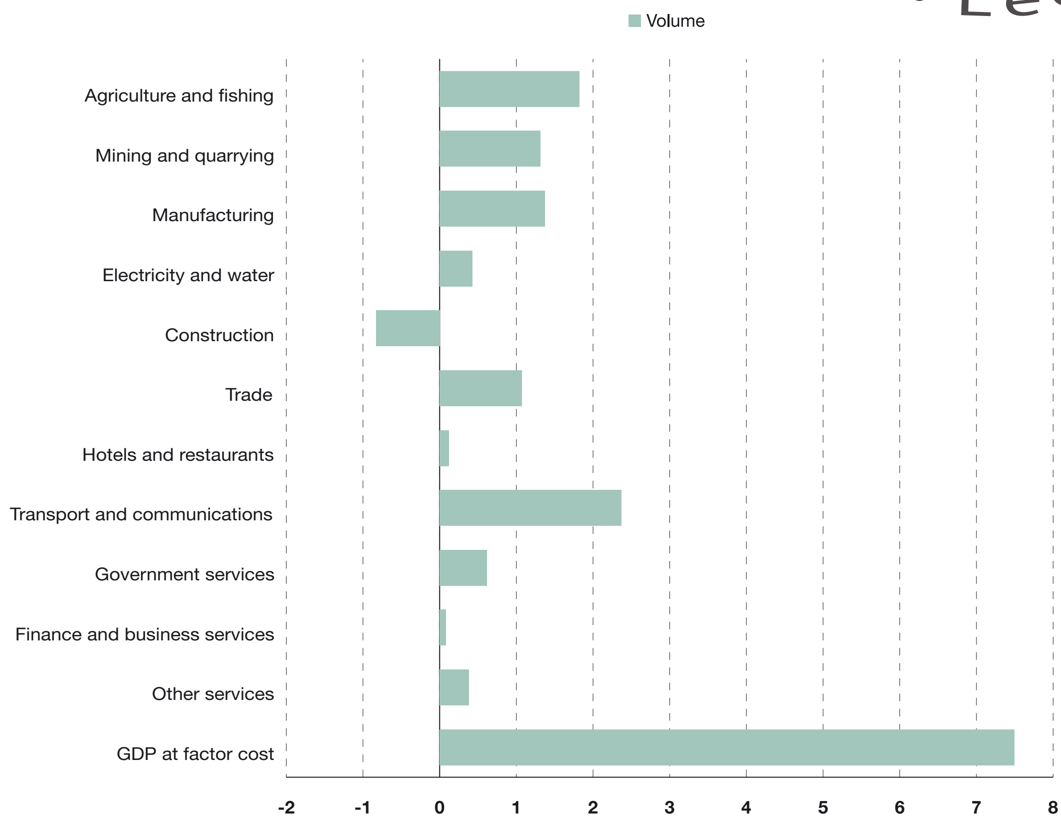
Industry share of GDP has expanded sharply from 16 per cent in 1996 to 27 per cent in 2004; this increase is largely due to mega-projects. The Mozal aluminium smelter in Maputo province, created with a $2.1 billion investment by Australian and South African interests, now accounts for half of manufacturing output, and has made Mozambique one of the world's leading

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

exporters of aluminium. Other capital-intensive manufacturing industries, such as cement, beverages and tobacco-processing all recorded good performances, especially subsequent to the opening of a cement factory in Nampula and a tobacco factory in Tete.

After expanding by 230 per cent the previous year, the mining sector grew by another 40 per cent in 2005, following the completion of the Sasol gas pipeline from Inhambane province to South Africa and the consequent increase in gas production. Foreign investors have stepped up exploration activities in base metals and industrial minerals. Kenmare Resources of Ireland is the lead investor in a new $450 million titanium mine and smelter in Moma, which is expected to begin operations in late 2006. Australian and South African–based companies are also initiating the $500 million Corridor Sands Titanium Project in

Gaza province, which has the world's largest deposit of titanium-bearing sands. The Corridor Sands project will be even larger than the Moma project, and will include the construction of either a port terminal on the coast of Gaza or a railway linking the smelter to the port of Maputo. Nevertheless, due to high capital intensity, profit repatriation and fiscal incentives, the mega-projects generate relatively minor benefits in terms of employment, linkages and foreign currency earnings.

The construction sector is heavily influenced by mega-projects. Following the start in October 2004 of the Moma titanium mining project, construction expanded by 8 per cent in 2005 rebounding from a contraction of 9 per cent in 2004, which reflected the completion of the Mozal and Sasol projects. Construction also benefited from the rehabilitation of the Sena railway line from Tete to Beira and road maintenance and rehabilitation works within the framework of the donor-supported 2004-06 ROADS-3 programme. Further expansion in construction is expected in 2006, thanks to continued road and bridge rehabilitation and the start of the Corridor Sands Titanium Project.

In the service sector, transport and communications grew by 13.2 per cent in 2005. Growth in transport reflected investment in roads around the three so-called "corridors": Maputo to South Africa, Beira to Zimbabwe and Nacala to Malawi (see section on transport infrastructure). Air traffic decreased by 2.2 per cent in 2005 however, owing to safety concerns about the national carrier, Linhas Aéreas de Moçambique (LAM). Prospects for air travel are improving as LAM is undertaking measures to improve safety and has signed a code-share agreement with Kenya airways to expand Mozambique's international connections. Better communications performance in 2005 is the result of the mobile telephony boom, with the entry of a second mobile operator in late 2003. To encourage competition, in May 2003 M-Cell was separated from the state-owned telecom company TDM, and both entities became limited liability companies under majority state ownership. The government seeks a strategic partner to take a majority stake in TDM in order to attract funds for the expansion of the network. In April 2005, parliament passed a bill liberalising telecommunications, and a second fixed-line operator is to be licensed before the end of 2007.

Private investment in GDP doubled between 1997-2003, mostly reflecting the influx of foreign investment in the Mozal project, which was concluded in 2003. This ratio dropped in 2004-05, but is expected to increase substantially in 2006 and 2007, due to a new wave of foreign investment in mining mega-projects. Public investment, notably in donor-supported road building and other infrastructure development, increased in 2005 and is expected to grow further in the next two years. Increased foreign assistance is also expected to boost public consumption in 2006. Private consumption as a share of GDP fell in 2004 and 2005, mainly reflecting the effects of the drought. Strong export growth and reduced import growth reflected the completion of the Sasol and Mozal projects. The next

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**19.2**	**29.8**	**25.9**	**20.1**	**21.2**	**22.7**	**23.3**
Public	12.1	12.5	11.7	9.1	10.3	10.8	10.9
Private	7.1	17.3	14.2	10.9	10.9	11.9	12.4
Consumption	**93.2**	**89.0**	**89.9**	**88.2**	**87.7**	**88.4**	**89.6**
Public	7.5	12.6	13.2	12.9	13.6	14.2	14.3
Private	85.7	76.4	76.7	75.3	74.1	74.1	75.2
External sector	**-12.4**	**-18.8**	**-15.8**	**-8.3**	**-8.9**	**-11.0**	**-12.9**
Exports	14.7	29.0	28.3	30.0	30.6	29.7	27.5
Imports	27.2	-47.8	-44.1	-38.3	-39.5	-40.7	-40.3

Source: IMF and National Institute of Statistics data; projections based on authors' calculations.

wave of mega-projects will lead to a strong increase in capital goods imports over the next few years, while export growth is expected to slow down until the Moma titanium project begins production, anticipated in late 2006. Fiscal policy exhibited little change between 2004-05, but is expected to be less expansionary in 2006 and 2007.

Macroeconomic Policies

Fiscal Policy

Over the past five years, substantial progress has been made in macroeconomic stability as mandated by the 2001-05 PARPA and the three-year Poverty Reduction Growth Facility agreed with the IMF in July 2004. Reporting and management of expenditure has improved considerably, in areas such as the wage bill and debt management. Nevertheless, additional efforts to mobilise tax revenues are necessary in order to reduce dependence on foreign aid, which currently finances 50 per cent of the budget.

The 2005 joint review (government, donor and civil society) noted that the overall performance of fiscal policy was encouraging. Although expenditure increased towards the end of the year due to emergency grain imports in response to the drought, the budget deficit inclusive of grants for 2005 as a whole is estimated at 5.5 per cent, just under the 6 per cent target.

On the expenditure side, the wage bill was contained within the programmed range and there was some scaling back of capital expenditure. Expenditure on priority sectors – education, health, agriculture, infrastructure and good governance – increased from 63 per cent of total expenditure in the first half of 2004 to 66.9 per cent in the first half of 2005, exceeding the PARPA target of 65 per cent. Much of the increased spending was on health and education. Overall, the quality of financial reporting improved, reflecting the implementation of a new computerised system for recording expenditure (e-SISTAFE). After some delays, e-SISTAFE was instituted in three pilot ministries by the end of 2005. Also, a task force was established to further shift off-budget spending onto the official budget.

In 2006, the main objectives are the extension of e-SISTAFE to all ministries' spending and increasing fiscal decentralisation. The government has allocated $300 000 per year to each district to finance small-scale infrastructure projects on the basis of a participatory planning process. While this fiscal decentralisation is potentially beneficial, its success depends on strengthening administrative capacity at local level and clarifying the responsibilities of provinces, districts and municipalities.

The 2006 budget also calls for recruiting 10 000 teachers and 2 000 health workers, which will entail a substantial increase in recurrent expenditure. Capital

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(e)
Total revenue and grants[a]	**20.9**	**22.8**	**22.5**	**19.6**	**20.1**	**22.3**	**22.9**
Tax revenue	11.6	11.0	12.0	11.4	11.6	11.8	12.5
Grants	9.3	10.3	9.5	7.3	7.6	9.5	9.5
Total expenditure and net lending[a]	**23.5**	**29.8**	**26.9**	**24.0**	**25.6**	**26.4**	**27.0**
Current expenditure	10.7	13.7	14.8	14.1	14.5	14.9	14.9
Excluding interest	*9.4*	*12.4*	*13.6*	*13.1*	*13.7*	*14.2*	*14.4*
Wages and salaries	3.6	6.4	6.8	6.7	7.1	7.4	7.5
Interest	1.3	1.3	1.2	1.0	0.8	0.7	0.5
Capital expenditure	12.1	12.5	11.7	9.1	10.3	10.8	10.9
Primary balance	**-1.3**	**-5.6**	**-3.3**	**-3.4**	**-4.7**	**-3.5**	**-3.5**
Overall balance	**-2.6**	**-7.0**	**-4.5**	**-4.4**	**-5.5**	**-4.2**	**-4.1**

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

outlays are also projected to increase, while the share of spending on priority sectors out of total primary expenditure will remain above the 65 per cent level. This increased investment and social spending is enabled through increased foreign assistance and debt relief.

On the revenue side, measures to identify and collect corporate and individual tax arrears from 2003/04 were adopted in 2005. The 2006 budget calls for continued strengthening of tax administration, notably through the establishment of a Central Revenue Authority. The scope for increased revenues is limited, however, by the special tax regimes for mega-projects, including preferential corporate tax rates, tariff exemptions and tax deductions for social and environmental expenditures, which lack transparency.

Given that tax revenues are expected to increase moderately as a share of GDP and increased social spending is anticipated to be more than offset by increased aid and the restraint of other expenditure, the budget deficit is forecast to decline to just above 4 per cent of GDP in 2006 and 2007.

Monetary Policy

Since 2004, the Bank of Mozambique has undertaken a series of measures to strengthen monetary management, through daily liquidity forecasting and the use of foreign exchange and Treasury Bill sales to sterilize the changes in the monetary base that are associated with balance-of-payments shocks.

In 2005, central bank targets for growth of broad money stock and inflation were set at 14.5 per cent and 8 per cent respectively. Nevertheless, the money supply increased by 25 per cent in 2005. After appreciating by approximately 20 per cent in 2004, the metical has trended downwards since early 2005 – depreciating by around 60 per cent from February-November. The currency also experienced some volatility following the introduction of a foreign exchange auction system in January 2005 but stabilised towards the end of the year as the market and monetary authorities gradually adjusted to the new system. Strong inflows of foreign direct investment and additional food aid are expected to put upward pressure on the metical in 2006.

The effects of the 2004 world oil price rises on domestic petrol prices were partly offset by the appreciation of the exchange rate, but in the first half of 2005 further oil price increases were instead compounded in local currency terms by the depreciation of the metical, forcing the government to raise domestic fuel prices. In the first half of 2005, there were four fuel price hikes, cumulatively increasing retail fuel prices by 50 per cent. Two further fuel price increases of 20 per cent and 8 per cent occurred in October and November 2005 respectively.

Despite these large increases in fuel prices, inflation trended downwards in 2005, averaging 7.4 per cent for the year compared to 12.6 per cent in 2004, largely as a result of lower food prices between March-August 2005. However, overall inflation rose back up to 14 per cent in the last quarter of 2005, partly due to the drought in the southern part of the country and the fuel price rises. On the assumption of normal weather conditions and continued monetary restraint, inflation is expected to decelerate to 7.2 per cent in 2006 and 5.6 per cent in 2007.

External Position

Mozambique's current account deficit dropped to 5 per cent of GDP in 2004 from 9.2 per cent in 2003. Exports rose from $1.04 billion to $1.50 billion in 2004, which is a proportionally greater increase than the rise in imports, from $1.75 billion to $2.03 billion. In 2004, aluminium from the Mozal project accounted for nearly two-thirds of export revenue. Natural gas (associated with the first full year of operation of the Sasol pipeline to South Africa), and fish and crustaceans (chiefly prawns) were a distant second and third in the list of exports. Mozambique's imports are dominated by mechanical and electrical machinery, vehicles, and iron and other inputs used by mega-projects. The country is a substantial importer of cereals, and recently increased these imports in response to the drought, as noted earlier. Despite sluggish exports in some key sectors, such as prawns, sugar and tobacco in the first half of 2005, and a jump in the oil import bill, the trade balance improved slightly, largely thanks to buoyant aluminium exports. The construction of the Corridor Sands project and the Moma project are expected to boost imports of capital goods in 2006, but will also start to contribute to export growth towards the end of 2007.

Mozambique's principal export market is the Netherlands, to which 100 per cent of Mozal's aluminium is exported, reflecting Rotterdam's role as a hub for the trans-shipment of aluminium. Other important destinations for Mozambique's exports include South Africa, Malawi and Portugal. The largest source of imports is South Africa, followed by the Netherlands, Portugal, India and the USA. In short, Mozambique's trade is at present dominated by the Mozal and Sasol mega-projects.

Mozambique's membership of the South African Development Community (SADC) will impose a schedule of tariff reductions on intra-regional imports beginning in 2008, leading to complete elimination of tariffs by 2015. Separately, Mozambique plans to reduce the maximum tariff rate from 25 to 20 per cent on imports from all countries, including non-SADC countries, in 2006. The negotiations for the SADC Economic Partnership Agreement (EPA) with the European Union, which began in 2002, entered a new round in September 2005, and are scheduled to be completed in late 2007. The objectives of the EPA include liberalised trade between SADC and the EU in the longer term, and EU support for trade capacity building in the medium term. At present, Mozambique benefits from tariff-free access to the EU under the EBA initiative, but the latter is scheduled to expire, so trade relations with the EU will be governed by the EPA.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-15.4	-17.9	-14.6	-8.7	-8.5	-10.3	-11.9
Exports of goods (f.o.b.)	6.7	19.8	21.8	24.7	26.2	25.5	23.5
Imports of goods (f.o.b.)	-22.0	-37.7	-36.4	-33.4	-34.7	-35.8	-35.4
Services	2.9	-0.9	-1.2	0.5			
Factor income[a]	-5.3	-4.2	-4.1	-5.6			
Current transfers	5.2	9.8	10.7	8.9			
Current account balance	**-12.5**	**-13.3**	**-9.2**	**-5.0**			

a. Factor income is included in services.
Source: IMF and Bank of Mozambique data; projections based on authors' calculations.

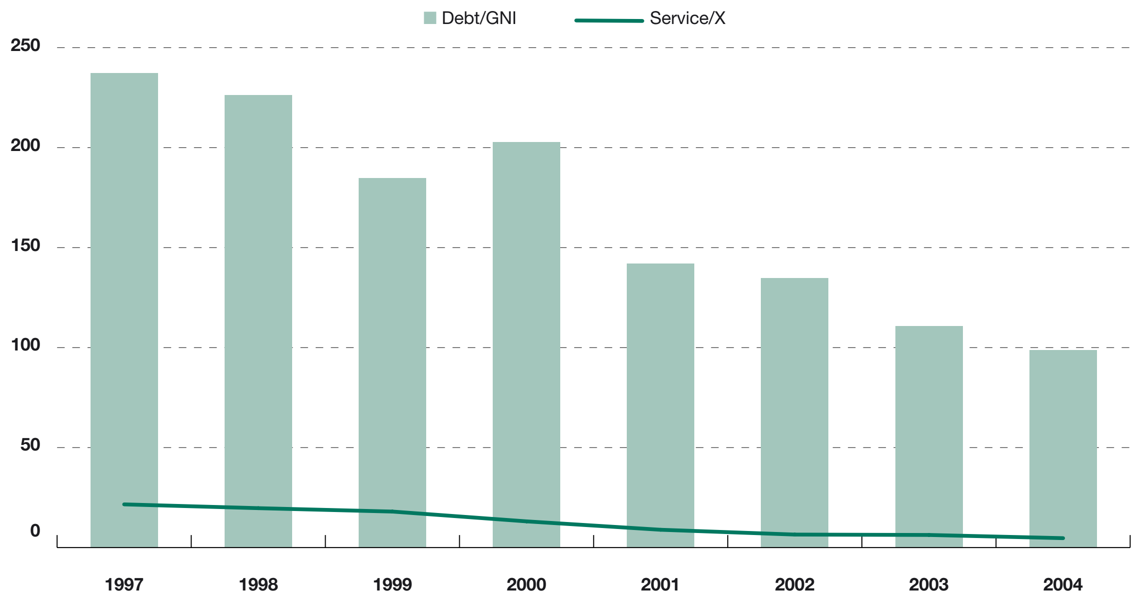
Abundant natural resources have made Mozambique one of the magnets for foreign direct investment (FDI) in southern Africa. The stock of FDI has risen to over $4 billion in 2004, mostly due to mega-projects.

Although mega-projects contribute positively to the balance of payments through exports and FDI, their net impact on this balance is smaller, owing to imports of capital goods, and repatriation of profits and remittances. Moreover, FDI remains concentrated in industry in the south of the country, and has yielded limited backward and forward linkages with local business. In order to extend foreign investment contribution to the rest of the economy, the authorities announced their plans in late 2005 to set up a "Special Economic Zone" in the northern port of Nacala; to launch fisheries projects, particularly fish farming, in Sofala, Zambezia and Cabo Delgado; to attract investment in irrigation and agricultural projects in the Zambezi valley; and to promote tourism ventures in Cabo Delgado, Niassa and Nampula.

Foreign aid has been a critical source of resources for Mozambique since the end of the civil war, placing it among the world's top recipients of aid. Net official development assistance rose by 18 per cent in 2004, yielding an aid-to-GDP ratio of 20 per cent. Seventeen donor countries (G17) recently formed a committee to co-ordinate their programmes. The G17 currently provides 27 per cent of total aid but their share is expected to increase to 60 per cent as a result of multilateral debt relief and promised increases in aid flows. In order to align donor programmes with government planning and implementation cycles and reduce the volatility of disbursement, G17 has signed a Memorandum of Understanding with the government to undertake joint reviews of government programmes.

Mozambique's stock of foreign debt stood at $4.4 billion in December 2004, remaining virtually unchanged from one year earlier; 52 per cent of this debt was owed to multilateral creditors. The recently announced cancellation of multilateral debt, following the July 2005 G8 meeting in Gleneagles, signifies that the net present value of the public external debt-to-GDP ratio will decline precipitously to approximately 10 per cent. Debt service in 2004 totalled $57.9 million, $3 million of which was rescheduled. As a result of bilateral and multilateral debt relief, public debt service is expected to be reduced by 0.5-0.6 per cent of GDP in the next few years.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

Structural Issues

Recent Developments

Firms cited three key factors in an IFC-sponsored survey on perceptions of impediments to private sector development. In order of importance, these obstacles were: *i)* the high cost of and lack of access to finance; *ii)* the policy environment, including taxation, corruption regulatory and administrative barriers (licences, labour regulations, access to land); and *iii)* inadequate infrastructure, especially electricity and roads.

Regarding finance, firms reported that 90 per cent of working capital and nearly two-thirds of investment are financed using their own funds. Firms are deterred from bank credit by high interest rates (13 to 18 per cent in real terms) and prohibitive collateral requirements (approximately 140 per cent of the credit amount). Increased private sector access to loans can be fostered through improved bank balance sheets, reduced crowding-out from public-sector borrowing, and by offering incentives to commercial banks to hold a greater share of their assets in the form of industrial and commercial loans. Efforts to promote bank lending must nevertheless be balanced against safeguarding the solvency of the banking system. In July 2005, prudential regulations were tightened, with banks required to hold reserves equal to 50 per cent of foreign currency loans to non-exporters, effectively precluding such loans. This measure is likely to have an adverse effect on many industries, especially construction and tourism, which are dependent on imports and often need to borrow in dollars. The IMF nevertheless endorsed the stricter prudential regulations during its 2005 review of the Fund's Poverty Reduction and Growth Facility.

The second structural factor identified by Mozambican firms in the IFC survey concerned the policy environment, especially corruption. Sixty four per cent of firms cited bribes to government officials as a major or severe problem (although only 27 per cent claimed to have made such payments). These findings are complemented by the Pesquisa Nacional sobre Governação e Corrupção, published in 2005, supporting the IFC finding that corruption is a major problem.

Despite the stated government commitment to promoting the private sector, regulatory and administrative barriers to private sector activity remain pervasive. Firms cite labour-market rigidities related to hiring temporary workers and lay-offs, government procurement procedures, judicial problems and uncertain property rights.

Nearly two-thirds of firms ranked electricity supply as a major or severe problem in the IFC survey. Nearly a quarter owned generators and the median loss from power outages was equivalent to 2 per cent of sales revenues. It is hoped that the impending transfer of ownership to the Mozambican state of one of Africa's largest hydroelectric plants, the Cahora Bassa dam (HCB), might help alleviate the electricity shortage. The stumbling block to negotiations between Portugal (until recently owner of 82 per cent of the capital of the dam) and Mozambique (18 per cent ownership) was Mozambique's insistence that Portugal forgive some $2.3 billion of debt owed by the dam to the Portuguese treasury. Under the new agreement, the situation is to be reversed: Mozambique will gain ownership of 85 per cent of HCB with Portugal retaining only 15 per cent, for which Mozambique will pay the Portuguese government $950 million by end-2006, which constitutes about 15 per cent of 2005 Mozambican GDP. Resolution of the lengthy negotiations between Portugal and Mozambique may allow long-delayed investments in generating capacity and other improvements to get underway, with some private participation. This is probably of particular significance for the projected new dam on the Zambezi river at Mepanda Ncua, 70 km downstream from Cahora Bassa. The Mozambican authorities had feared that failure to solve the Cahora Bassa issue would dissuade companies from investing in Mepanda Ncua.

Agriculture also faces an adverse institutional environment. The June 2005 announcement made by the João Ferreira dos Santos group, a major commercial agricultural operator in Mozambique since the late nineteenth century, that it would join a long list of firms exiting agricultural operations, symbolises the problems faced in the commercial agriculture sector. Despite initiatives such as increased telephone coverage in rural areas, rural electrification, rehabilitation and maintenance of rural roads, and the World Bank-funded Agricultural Sector Public Expenditure Programme (ending in 2005), no national rural development programme is in place. The authorities have promised to launch such a strategy in the near term.

Transport Infrastructure

With more than 2 500 km of coastline, Mozambique is an important economic gateway for neighbouring landlocked counties. Since colonial times, the country has exploited this strategic position, developing three main corridors linking Malawi and Zimbabwe to the ports of Nacala and Beira respectively, and South Africa and Swaziland to the Maputo port.

The Maputo Development Corridor linking the South African provinces of Gauteng and Mpumalanga to the port of Maputo is the most important transport link. The corridor was intended to encourage the integrated development of the area, with the construction of a toll road, increasing the role of the private sector in the Maputo port and of the railway lines through concessions. It was also intended to encourage the establishment of industrial free trade zones. The concession for operating the 503 km highway linking Maputo and Witbank was awarded to Trans African Concessions, and the highway became a toll road in 2000. The toll road is currently operating successfully and benefits from substantial traffic to and from the Mozal smelter (see box). The Maputo port has been managed by the Maputo Port Development Company consortium as a 15-year concession that began in 2003. The consortium, led by a UK company, has implemented a $70 million three-year rehabilitation programme for the port and its connecting roads. Major South African exporters are already using Maputo port instead of the more distant and congested ports of Durban and Cape Town.

In 2002, the Mozambique government granted South Africa's rail utility Spoornet operating rights for the railway line from Maputo to Ressano Garcia on the border with South Africa. An important component of the concession agreement is the commitment to invest $10 million in upgrading the lines, bringing the Mozambique section up to South African standards. However, the consortium did not take over management of the line or invest in its rehabilitation. The cargo shipments from South Africa to Maputo are falling short of the levels envisaged in the agreement, as cargo is being diverted to Durban. Consequently, the government cancelled the lease in 2005, and the Mozambican port and rail company CFM will rehabilitate the Maputo-South Africa line in 2006.

Lessons Learned from the South Africa-Mozambique Toll Road

The governments of Mozambique and South Africa signed a 3 billion rand, 30-year concession in 1996 with a private consortium, Trans-African Concessions (TRAC) to build and operate the N4 toll road from Witbank to Maputo. Since the road was completed in 2000, traffic has been rising at a rate of about 6 per cent a year. The high volume of traffic, averaging about 60 000 vehicles daily, originates primarily from the Mozal smelter and the industrial parks. The road facilitated further private sector investment in Mozambique and helped to increase tourism in the region, leading in turn to further increases in traffic.

The success of the project stems also from its financing, with commercial risk being shared by a wide range of investors. The toll road was financed with 20 per cent equity and 80 per cent debt. Three construction companies contributed 331 million rand worth of equity with the rest of the capital provided by many investors. The lenders include South Africa's four major banks and the Development Bank of Southern Africa. The governments of South Africa and Mozambique jointly guaranteed the debt of TRAC and, under certain conditions, the equity as well. At the time, it was the biggest project finance deal in southern Africa.

In order to reduce the burden on low-income Mozambique, TRAC subsidised the Mozambican portion of the road with the higher revenues from the South African side, and also provided substantial discounts to regular Mozambican users. The toll varies according to the size of vehicles. The substantial benefits for trucks include: the avoidance of border tax for vehicles entering Mozambique at Ressano Garcia, 24–hour roadside assistance through TRAC patrols, improved road conditions and regular road maintenance.

The main problem for the concession-holder is damage to the road as the concession agreement did not specify regulations on truck loads. At the beginning of 2004, TRAC began to assist both the South African and Mozambican governments in establishing axle load control measures. The percentage of overloaded vehicles has already fallen from 23 per cent in 2001 to 9 per cent in 2004.

The Beira corridor has been severely impacted by the economic crisis in Zimbabwe, which accounts for the vast majority of its traffic. Nevertheless, traffic is expected to rise following the reconstruction of the Sena railway line, linking Beira to the Moatize coal mines in Tete province, with the work to be carried out by an Indian consortium, Rites and Ircon International. This railway will enable the huge investments planned by the Brazilian Companhia Vale do Rio to go forward. Additional traffic is expected to arise from the increasing development of the agricultural zones of Manica and Sofala.

The Nacala corridor is likely to see expanded use, as it is the natural route to the deep sea port of Nacala for Zambian copper destined for China and India. In addition, an 800 km railway connects the port with Malawi. Nevertheless, the rail line is in very poor condition and traffic volume remains very low. The management of the port and railway has been awarded to an American, South African, Portuguese and Mozambican consortium, the Nacala Corridor Development Company (SDCN), which took over management in early 2005. However, the government has been dissatisfied with decisions made by SDCN to close railway stations and dismantle the communication system between the stations and the trains. SDCN also failed to operate the promised regular service on the branch line between the cities of Cuamba and Lichinga in Niassa province. After pressure from the government, SDCN reinstated the communication system, but many stations remain closed.

In contrast with the well-established east-west corridors linking Mozambique to its neighbours, north-south transport is virtually non-existent. A small ferry service on the Zambesi river is the only direct link between the food surplus-producing areas in the central and northern regions to the southern regions, where all the main industrial and trading activities are concentrated. This lack of north-south transport limits the development of national markets, reduces the mobility of people and goods, raises transport costs and has exacerbated the food crisis. According to the World Bank Value Chain analysis, moving a product from Pemba to Maputo by road requires crossing into Malawi, Zambia and Zimbabwe to travel southward, and then re-entering Mozambique. The cost of trucking a 22-24 tonne container from Maputo to the north (Pemba) is about $7 000, which is nearly 2.5 times the cost of shipping the same container from Dubai or Guangzhou, China to Maputo.

The long-planned construction of a 2.4 km bridge over the Zambezi river at Caia is finally underway. In November 2005, the EU launched an international tender to select a contractor to construct the bridge. A formal contract between the Mozambican government and a Portuguese contractor was signed in February 2006. The construction of the bridge, budgeted at $80 million, is expected to take three years and is being jointly funded by the EU, Sweden, Italy, Japan and the Mozambican government.

Over the past 15 years, government and development partners have embarked on major projects to improve the road system through the Roads and Coastal Shipping Project (ROCS), and now the Third Roads Programme (ROADS-3), which are expected to end by mid-2006. The ROCS/ROADS-3 programme includes: the rehabilitation of the Estrada Nacional 1, which connects the north and the south of the country; the rehabilitation of feeder roads; the periodic and routine maintenance of roads; and reconstruction of bridges. The ROCS programme has been quite successful. So far, approximately 6 000 km of roads have been opened and rehabilitated or are in the process of being opened. Approximately 18 000 km of roads are undergoing routine maintenance.

Nevertheless, government resources allocated to road maintenance remain limited as the fuel levy, which constitutes the chief source of financing of the Road Fund, is often diverted to other government priorities. Also, payments to contractors and consultants are often overdue, resulting in late payment fees, interest and lawsuits. As a result of such disputes, work on all N1 road contracts financed by the World Bank has been suspended in 2005. Since the beginning of 2005, donors have sought to provide technical support for the Road fund and the National Road Agency (ANE) in planning and project design, implementation of projects, and supervision. In addition, measures have been introduced to reduce dependence on the fuel levy in funding road maintenance and development.

Political and Social Context

The December 2004 presidential and legislative elections – the third to take place since the end of the civil war in 1992 – brought Armando Emílio Guebuza to presidency and maintained Frente de Libertação de Moçambique (Frelimo) in power. The party has had an uninterrupted hold on power for 30 years, 18 of which were ruled by Guebuza's predecessor, Joachim Chissano. Guebuza has focused attention on poverty reduction, improvement of justice and policing, and especially on the eradication of corruption. Critics claim that the government's anti-corruption efforts have mainly targeted low-level functionaries and those associated with the previous administration. One of the biggest challenges facing the new government is to make significant improvements in co-ordination and articulation between institutions, policies and strategies at all levels – central, district and provincial, which is particularly important given the drive of the new government to promote decentralisation and to encourage a more active role for state institutions. This issue has been highlighted in most of the speeches made by the new President.

PARPA and its replacement PARPA II lay out the country's strategy for attaining the Millennium Development Goals (MDGs). A 2005 report by the Instituto Nacional de Estatística (INE) provides important information on Mozambique's progress towards the MDGs.[1] The INE measures poverty on the basis of the cost of a basket of goods and services. Survey data reveal a substantial decrease in the incidence of poverty, from 69 per cent in 1996/97 to 54 per cent in 2002/03. Rural (55 per cent) and urban (52 per cent) poverty rates are similar, but there are substantial regional variations: the central provinces (Manica, Sofala, Zambézia) have the lowest poverty rates, while the southern provinces (Gaza, Inhambane, Maputo) and northern provinces (Tete, Niassa, Cabo Delgado, Nampula) have much higher rates. Further reducing poverty to below 50 per cent will be more challenging, as progress so far mainly reflects improved agricultural production thanks to good rains and the re-establishment of peace. Structural reforms to increase agricultural productivity and promote labour-intensive industries are required to increase employment and income for the poor.

According to the 2002/03 IAF survey, the overall primary and secondary school enrolment rate is 68 per cent for boys and 64 per cent for girls, 79 per cent for urban children and 60 per cent for rural children. There is a marked north-south divide for enrolment rates. The overall literacy rate is 46 per cent, with 34 per cent in rural areas and 70 per cent in urban areas, and the literacy rate increases steadily as one moves from north to south.

According to the same IAF survey, infant mortality is 178 per 1 000 live births. While this rate is a substantial improvement on the 1996/97 rate of 219 per 1 000, it is still quite high by international standards. Also, there remain important differences between urban (143 per 1 000) and rural (192 per 1 000) rates of infant mortality, and between regions. Mortality for children aged under five has exhibited the same downward trend and the same regional variations. Vaccination against measles between the ages of 12 and 23 months is one of the key measures required for reducing child mortality. Over 90 per cent of children in this age range in southern regions have been vaccinated, but in northern regions the proportion is much lower, ranging from two-thirds to three-quarters, with a low of 52 per cent in Niassa.

As in many other countries in the southern African region, HIV/AIDS is a major health problem in Mozambique. The results of the 2004 round of the Ministry of Health's Epidemiological HIV Monitoring programme reveal a national prevalence rate of 16.2 per

1. Much of the information is based on the Inquérito aos Agregados Familiares Sobre Orçamento Familiar (IAF) surveys of 1996/97 and 2002/03.

cent for adults between 15 and 49 years old, versus the rate of 13.6 per cent observed during the 2002 round. Prevalence rates vary across regions: in the south (Maputo City and Province, Gaza and Inhambane) the rate is 18.1 per cent, in the north (Niassa, Nampula and Cabo Delgado) it is 9.3 per cent, and in the centre (Sofala, Manica, Tete, Zambézia) it is 20.4 per cent. These rates are growing in all regions, but there is evidence that in the centre (with the exception of Zambézia), the epidemic has reached a plateau. The most rapid rate of increase is observed in the north.

In 2004/05, drought and the acute poverty in some regions of Mozambique led to marked food insecurity. Reports that food stocks have been essentially depleted in Gaza, Inhambane and Tete mean that even if the rainfall situation improves during the 2005/06 crop season, rural households will face critical food shortages before the harvest. The World Food Programme, in addition to ongoing initiatives such as providing food to children at school, has established some 300 emergency food distribution centres.

Although unemployment and underemployment of workers is significant in Mozambique, existing data make it very difficult to judge the magnitude of the problem. A detailed labour-force survey organised by the INE is expected to shed considerably more light on employment in Mozambique when results become available in 2006.

Niger

key figures

- Land area, thousands of km² 1 267
- Population, thousands (2005) 13 957
- GDP per capita, $ PPP valuation (2005) 770
- Life expectancy (2000-2005) 44.3
- Illiteracy rate (2005) 81.3

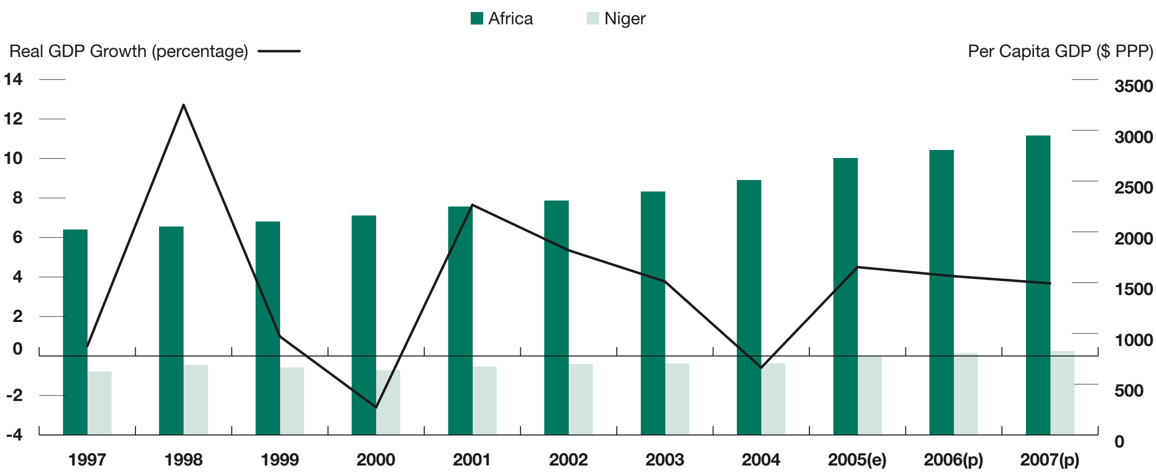
All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/081240420485

Niger

WITH THE INFLUX OF EXTERNAL AID and the cancelling of its foreign debt, the economy of Niger was set for prosperity. Unfortunately, a migratory locust invasion that devastated the harvest, and the drought that followed, had catastrophic economic and social effects. According to estimates, GDP fell -0.6 per cent in 2004, compared with nearly a 4 per cent increase in 2003. It appears that 2005 was a recovery year, furthered by the synergy created between large-scale international humanitarian efforts, debt relief and the organisation of cultural events such as FIMA (International Festival of African Fashion) and the 5th Francophone Games. After confronting the disturbances caused by the famine and the reduction of subsidies on certain products, the government of Niger is making great efforts to pursue structural reform. In 2005, GDP is expected to grow by 4 per cent. The prospects of growth linked to the production of oil and gold exports should enable the country to preserve the same rate of growth in 2006.

Economic recovery is underway thanks to the impetus provided by the international community and the 5th Francophone Games.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and INS (National Statistics Institute) data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

The economy of Niger is traditionally led by the primary sector (74 per cent of GDP in 2004), which is dominated by agriculture (38 per cent of GDP in 2004) and livestock. Despite the predominant role of agriculture in the economy, less than 12 per cent of the country is arable. Farming is predominantly manual and non-intensive, and takes place in small family holdings. With two-thirds of total agricultural production, millet is the most cultivated grain.

In 2004, the drought and the invasion of migratory locusts caused huge damage to the Nigerien economy. Over the last five years, national cereal production was 11 per cent below average. The cereal shortfall, estimated at 223 448 tonnes since the last harvest, affected 22 of the country's 36 regions, or around 31 per cent of the population. Food crop production fell by 23.7 per cent during the 2004-05 season, partly due to a 14.6 million metric tonne shortfall in pasture. Services, trade and manufacturing also shrank by 0.2 per cent in 2004. The foreshortened 2004 rainy season (June to September) harmed farming yields and gave way to a dry season that lasted until the relatively early resumption of the rains, in May and June 2005.

The agricultural sector could rebound in 2005. The rainy season began well and farmers were able to plant relatively early. The Food and Agriculture Organization of the United Nations (FAO) confirmed that locust reproduction zones had been identified at the beginning of July in the centre of the country (Tamout and North Zinder). In the belief that acridian invasions are not systematic, the vegetation protection department (Direction de la protection des végétaux) of Niger did not take any specific measures. Prior to the invasion of 2004, the last major invasion was in 1988. However, locusts are not the only granivorous species to strike Niger (grasshoppers, caterpillars, etc.). According to the agricultural ministry (Ministère du développement agricole), 92 per cent of arable land had been planted by 15 June 2005, against a usual rate of 65 per cent for this period of the year. The government provided seeds to farmers in the areas worst hit by the drought.

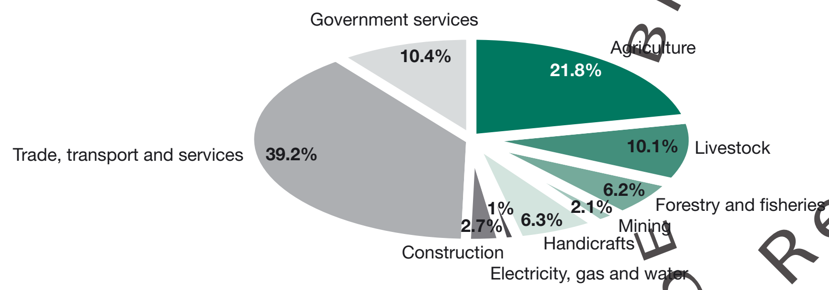
The agricultural sector is expected to grow by 5.6 per cent in 2005, leading to a 4.3 per cent increase in the primary sector. The quality and availability of seeds remain a crucial problem for the agricultural sector. Too often, non-enhanced and poor-quality seed unsuited to the climatic and agricultural conditions of Niger are planted. Seeds are generally purchased on the market, lent by relatives, or given in payment for labour. This year, the market prices of millet and sorghum in the north of the country did not decrease as much as usual after the harvest; then they rose continually from January to July 2005. During this period, millet was also 84 per cent higher than its average annual price in 2004, while sorghum was higher by 75 per cent. In addition to the locusts and the drought, other factors attest to the rise in prices in agricultural regions (where purchasing power is weakest), such as the exceptionally high prices of millet and sorghum over the past months in the neighbouring markets of Benin, Côte d'Ivoire, Ghana and Nigeria that have drawn cereals from the Sahel to the south. Niger imports grain from neighbouring countries which have a production surplus (Burkina Faso, Mali and Nigeria). This year, however, despite treaties banning such practices, each of these three countries imposed export restrictions on cereals, fearing famine and shortages. To these factors must also be added the high cost of transporting cereals arising from limited and fragile infrastructure.

After uranium, livestock is the second largest export sector. Due to nomadism, this traditional activity is practised extensively, though it suffers from a lack of professionalism and from a near total lack of animal health monitoring, with no access to veterinary products. Because of inadequate infrastructure (transport vehicles, abattoirs equipped with cold rooms, etc.), processing activities remain in their infancy. Favourable rainfall in 2005 somewhat improved pastures, without however having either an immediate or lasting effect on the condition of the livestock. Since last year, 40 per cent of Niger's herd has died. In October 2004, the government estimated that there was a record shortfall in fodder, 154 per cent greater than that recorded in 2000. Livestock prices collapsed as households in pastoral and agricultural regions sold off their animals to meet their grain needs: in July 2005 prices had fallen by 50 per cent compared with July 2004. Given the dependence of agro-pastoral households on livestock, this price collapse reduced their purchasing power and increased their vulnerability.

With mediocre harvests, non-agricultural activities were the principal source of growth in 2004; this trend is likely to be reversed in 2005, in the light of favourable climatic conditions.

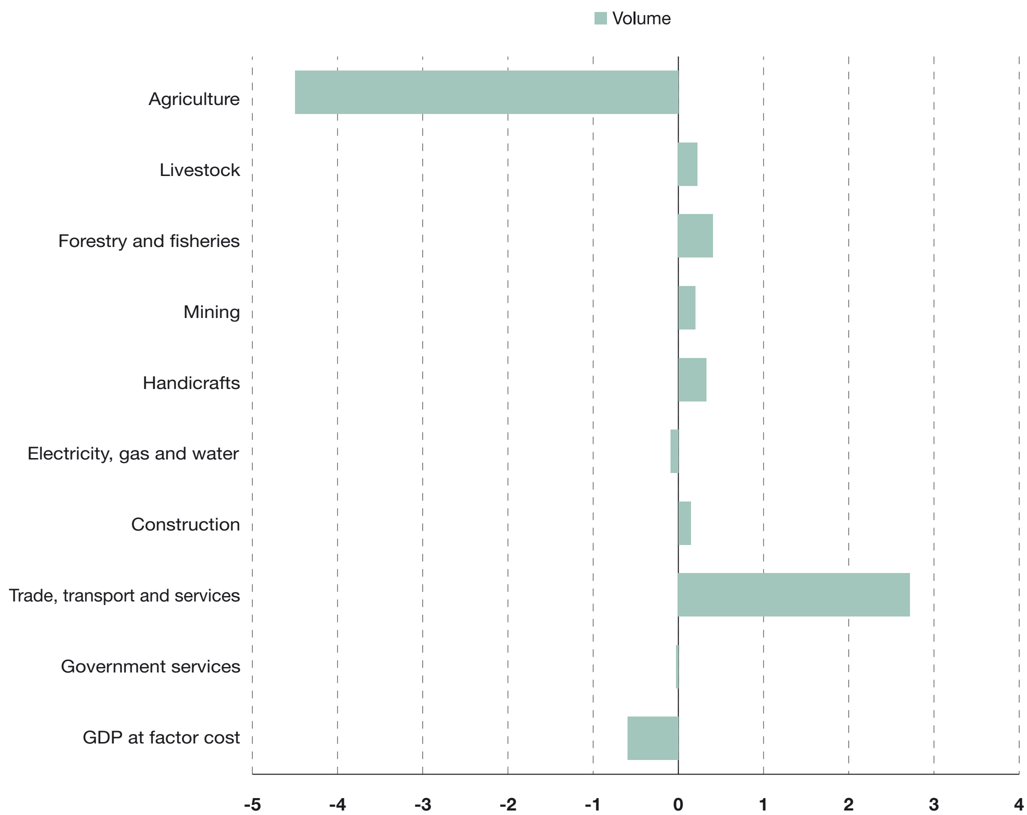
Mining activities are dominated by uranium extraction, with two mines operating (Akouta and Aïr). In 2004, uranium accounted for 30 per cent of the formal economy, with 3 282 tonnes extracted. The world annual demand for uranium is 66 000 tonnes, 55 per cent of which is supplied by mining activities, while the remainder comes from stocks and weapons recycling. The demand for uranium could well increase in coming years, as a number of countries are planning to develop their nuclear energy (for example, China is expecting to construct 27 new power stations; India, 31; and the Russian Federation, 25). As a result, demand

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on INS data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on INS data.

could exceed supply by 11 per cent in the coming ten years, bringing about a rise in international prices. Uranium prices increased by 44 per cent in 2004, going from an average of $12.6/lb in 2003 to $18.2/lb in 2004. Price increases are expected to be even greater in 2005.

Niger began producing gold in 2004, but its contribution to the economy remains modest (0.6 per cent of GDP), and this should remain the case in 2005.

The country also has oil resources, though these are only likely to be exploited in the medium term. In June 2005, Niger and Algeria signed a 12-year oil exploration contract for the Kafra site, near Agadez, in the north of the country. The Algerian oil and gas company Sonatrach (Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures) plans to invest $29.5 million in the project. If results are conclusive,

Table 1 - Demand Composition (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**17.6**	**16.1**	**16.9**	**14.7**	**14.3**	**14.8**	**15.1**
Public	5.3	4.6	4.5	5.6	5.5	5.6	5.6
Private	12.3	11.5	12.3	9.1	8.9	9.3	9.5
Consumption	**90.4**	**93.3**	**93.7**	**96.5**	**98.7**	**97.8**	**97.1**
Public	18.8	17.0	16.1	18.4	19.5	20.0	19.5
Private	71.7	76.2	77.6	78.2	79.2	77.8	77.7
External sector	**-8.1**	**-9.4**	**-10.5**	**-11.2**	**-13.0**	**-12.6**	**-12.2**
Exports	17.9	16.0	16.5	16.8	15.9	16.7	16.7
Imports	-26.0	-25.3	-27.0	-28.0	-28.9	-29.3	-28.9

Source: INS data; estimates (e) and projections (p) based on authors' calculations.

the agreement also provides for the transport and trade of oil between the two countries. Under the "Tenere Permit" (held jointly by the China National Petroleum Corporation and the Canadian company, TG World Energy), exploration was to be resumed in 2005. In 2004, seeking to promote mining, the government awarded new licences to Canadian and Chinese companies permitting the exploitation of gold (reserves: 93 tonnes) and coal (reserves: 50 million tonnes).

The downturn in the agricultural sector brought with it a strong contraction in domestic consumption in 2004, and this continued in 2005. Ongoing investments in water management and production diversification are expected to contribute to reinvigorating agricultural production in 2006 and 2007. Non-agricultural sectors – such as mining and tourism – could benefit from new investments through FDI (foreign direct investment).

If growth of more than the current 4 per cent goal is to be achieved, in addition to the policies and reforms envisaged for the coming years, it is essential that coherent sectoral strategies be implemented, particularly in the rural sector, tourism and mines. The government should concentrate more on developing irrigation infrastructure (in accordance with the recommendations of the poverty reduction strategy) and on promoting the use of modern inputs to increase productivity in agriculture and livestock and to reduce rural sector vulnerability to droughts. Current efforts to diversify exports require to be reinforced by the effective inclusion of oil and mineral operations. Increased emphasis on promoting tourism ought to contribute to strengthening external viability and reinvigorating economic growth.

The share of investments in GDP has dropped since 2003, going from 16.9 per cent in 2003 to 14.3 per cent in 2005, but it ought to recover lost ground in the coming two years (2006 and 2007). Private investment remained weak in 2005 and even fell compared with 2003; it is expected to rebound slightly in 2006. Despite the hosting of the 5th Francophone Games, public investment was stagnant in 2005, at 5.5 per cent of GDP, compared with 5.6 per cent in 2004. It should, however, continue its upward trend in 2006 and maintain this in 2007. This situation reflects the limited investment opportunities in the country. In the short term, unless a discovery of oil reserves brings about an increase in foreign direct investment, investment will be led by donor funding.

Neither the fiscal balance nor the trade balance varied significantly in 2004, and so the effects on growth were negligible. In 2005, the fiscal balance stagnated around 11 per cent of GDP, while the deterioration of the balance of trade weighed down the growth rate of GDP.

Macroeconomic Policies

Fiscal Policy

In 2005, fiscal policy focused mainly on reducing poverty in parallel with reducing the budget deficit.

Table 2 - Public Finances (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**13.9**	**16.4**	**15.9**	**17.8**	**17.7**	**17.6**	**17.4**
Tax revenue	7.7	10.0	10.4	11.4	11.5	11.6	11.5
Grants	4.9	5.2	5.2	6.0	5.7	5.6	5.5
Total expenditure and net lending[a]	**17.0**	**19.3**	**18.7**	**21.4**	**21.9**	**22.2**	**21.8**
Current expenditure	11.9	11.2	10.9	11.5	12.4	12.6	12.1
Excluding interest	*10.3*	*9.7*	*9.7*	*11.0*	*11.9*	*12.2*	*11.9*
Wages and salaries	4.4	3.8	3.9	4.0	3.7	3.6	3.5
Interest	1.6	1.6	1.2	0.5	0.5	0.3	0.2
Capital expenditure	5.4	8.1	7.9	9.8	9.5	9.6	9.7
Primary balance	**-1.5**	**-1.4**	**-1.7**	**-3.0**	**-3.7**	**-4.3**	**-4.2**
Overall balance	**-3.2**	**-3.0**	**-2.9**	**-3.5**	**-4.2**	**-4.6**	**-4.4**

a. Only major items are included.

Source: Ministère des finances et de l'économie and Ministère de la privatisation et de la restructuration des entreprises publiques data; estimates (e) and projections (p) based on authors' calculations.

Thus, fiscal consolidation proved essential to increasing the government's contribution to domestic savings and investment.

Since the start of 2005, the government has been widening the tax base via several measures: extending the 19 per cent VAT to processed food products (milk, sugar, flour and wheat); reducing VAT exemptions on water and electricity consumption; and imposing an indirect tax on soft drinks. These VAT increases on processed food products and water and electricity consumption – requested by the IMF (International Monetary Fund) to increase tax revenue, as a PRGF (Poverty Reduction and Growth Facility) condition – resulted in mass protests and a series of strikes. The government was forced to withdraw the measures, losing 2.86 billion CFA francs in potential revenue from milk and flour and 849 million CFA francs from water and electricity. This loss in terms of receipts was offset by increases in company profit tax in both the formal and informal sectors, and in property tax. This budgetary revision and these new fiscal measures ought to generate 4.37 billion CFA francs, which is more than was expected from the VAT increases. It was planned to implement several additional measures to strengthen the efficiency of tax and customs collection with, notably: the creation on 1 March 2005 of a procedure for weekly exchanges of data on taxpayers between the tax authorities, Customs, and Treasury departments; the evaluation of tax exemptions; and, at the end of March 2005, the completion of a credible tax exemption reduction plan. Overall, tax revenue fell in Niger in 2005, and this is expected to continue in 2006 and 2007.

The national authorities observed a very prudent public spending policy in 2005, particularly in terms of salaries, which fell in comparison with 2004. This reduction is expected to continue in 2006 and 2007. The Nigerien government directed spending towards the social sectors identified by multilateral institutions (IMF and World Bank) as priorities for the HIPC (Heavily Indebted Poor Countries) Initiative. In 2005, total expenditure is expected to be held at 21.9 per cent of GDP, and 22.2 per cent in 2006. Current expenditure is expected to be limited to 12.4 per cent of GDP in 2005 and 12.6 per cent in 2006. The wage bill is estimated to be around 3.7 per cent of GDP against a background of outright freezing of public-service salaries, as in previous years. The government has made sure that budgetary allocations to priority sectors have been effective. Total expenditure in health and education is expected to grow from 4.6 per cent of GDP in 2004 to 5.5 per cent of GDP in 2005, reflecting the greater resources linked to the HIPC Initiative and increased budgetary assistance. Expenditure financed by HIPC Initiative resources is expected to reach a total of 40.9 billion CFA francs (2.3 per cent of GDP) in 2005, 36 billion CFA francs of which is for investment expenditure. Capital expenditure financed by this Initiative is expected, according to forecasts, to increase from 1.5 per cent of GDP in 2004 to 2.1 per cent in 2005.

The more rapid growth in capital expenditure (particularly in health and education) has been offset by more sluggish rises in recurrent expenditure, thanks to a prudent public-sector wages policy and the implementation of an early retirement scheme for public servants. The government's fiscal performance is impressive, given the narrow tax base and the unpopularity caused by the increases in indirect taxes.

As the 2005 harvest was satisfactory, the State should not have to compensate for food shortages. Tax revenue is therefore expected to increase by 11.6 per cent of GDP in 2006, against an anticipated 22.2 per cent increase in spending. The Nigerien government is in the process of developing a series of operational strategies to improve public revenue mobilisation after 2005. Measures envisaged include the application of VAT to domestic sales of non-essential goods, the introduction of a special environmental tax, and the reduction of property tax. Tax incentives will thus be fewer in 2006 than in 2005.

Monetary Policy

Monetary and credit policies are directed at regional level by the BCEAO (Central Bank of West African States) and are essentially aimed at preserving CFA franc-euro parity and controlling inflation. Strict monetary policies are thus observed in the CFA franc zone, mirroring those of the ECB (European Central Bank), with an appropriate level of international reserves. The only difference is that the BCEAO takes the economic situation of its member countries into account in its monetary policy.

In this context, money supply in Niger is expected to increase by 10.6 per cent in 2005, which represents a growth rate just over that of nominal GDP. While the government's banking credit is expected to remain unchanged, credit to the economy is expected to increase by approximately 7 per cent. Niger is due to begin repaying the BCEAO-Niger statutory advances, and to this effect has planned to issue Treasury bonds on the regional financial market.

In terms of inflation, the rise in prices observed at the end of 2004 continued in the first half of 2005. At the end of June 2005, the inflation rate was at an annual average of 7.4 per cent, which is higher than the 3 per cent community ceiling set by WAEMU (West African Economic and Monetary Union). Over 12 months (June 2005-June 2004), the inflation rate was 10 per cent. This massive increase in prices in the first half of 2005, particularly of unprocessed cereals, can be largely explained by weak supply due to poor agricultural production in 2004-05. In July 2005, this inflationary pressure persisted, with a year-on-year rate of 11.2 per cent.

External Position

Niger has a structural deficit in its balance of trade. Exports are essentially focused on uranium and livestock. Uranium exports, which accounted for 30 per cent of all exports in 2004, are expected to increase in 2005 due to the rise in international prices, helping mining companies to clear their stocks and production surpluses. Livestock, which is the second largest export, is primarily exported on the hoof, particularly to Nigeria (a large, easy market) and to Maghreb countries (especially Libya). Given the impact of the drought, the outlook for the sector in 2005 is uncertain. This activity remains less profitable than meat exports. Since 2004, Niger has been exporting gold, which has slightly boosted export revenue, estimated at 242 billion CFA francs in 2005.

Imports are rising, due to the growing demand for food products and intermediary and capital goods for infrastructure projects (including the preparations for the 5th Francophone Games in 2005). The rising cost of petroleum imports resulted in a 9 per cent increase in import expenditure between 2004 and 2005.

The trade deficit is expected to widen, from 76.4 billion CFA francs in 2004 to 80.4 billion CFA francs in 2005. This is also likely to be the case for the services deficit, with an increase in imports causing it to grow from 80.6 billion CFA francs in 2004 to 87.1 billion CFA francs in 2005. The situation will probably remain unstable until the crisis in Côte d'Ivoire is resolved and transport costs fall. The revenue balance continued to benefit from the debt relief granted under the HIPC Initiative, and so the revenue deficit should be gradually cleared. The steady flow of foreign aid will continue to contribute to the surplus in the current transfers account. All of these trends are expected to lead to a deterioration in the current account deficit (including budget aid), from 98 billion CFA francs in 2004 to 124.3 billion CFA francs in 2005.

In 2006, exports are expected to increase and reach 14.5 per cent of GDP, primarily under the pressure of the forecasted rise in international uranium prices, the increase in gold and onion exports and increased demand for livestock in Nigeria. Imports are also expected to increase, to reach 21.7 per cent of GDP. The current account deficit is also expected to widen and to reach 127.3 billion CFA francs.

Niger's foreign reserves continued to decline, to $34.3 million in March 2005, or about one quarter of their 2002 level. This rise in imports is explained by the cereal shortages resulting from the poor 2004 harvest, and by the rise in international oil prices. Added to foreign debt servicing payments, this increase led to foreign currency payments that exceeded exports, bank loans and payments, thus negatively affecting reserves. However, as Niger is a WAEMU member, the liquidity risk is low, given that members pool their exchange reserves at the BCEAO and the French Treasury guarantees the full convertibility of the CFA franc to the euro. As a result, the adoption of corrective measures to compensate for the fall in reserves has not proved restrictive.

The opening up of the country is evident in its pursuit of economic, trade and military co-operation with neighbouring countries. Relations with Nigeria – Niger's chief trade partner – remain sound. The country has committed to regional integration with WAEMU and is striving to meet the convergence criteria. According to WAEMU, Niger should be able to comply with three first-level criteria in 2005 (inflation rate below or equal to 3 per cent; no debt servicing arrears; and public debt less than 70 per cent of GDP) as well as two second-level criteria (public-sector salaries and investment). An extension of economic and military agreements with neighbouring countries – such as Benin, Mali and Chad – is also scheduled, under the aegis of the Community of Sahelo-Saharan States. Niger's relations with the United States are increasingly concerned with military co-operation, as the United States is troubled by the supposed existence of terrorist training camps and hideouts in the Sahel. Relations with France (the leading colonial power of the country and the largest bilateral donor and trade partner) remain strong.

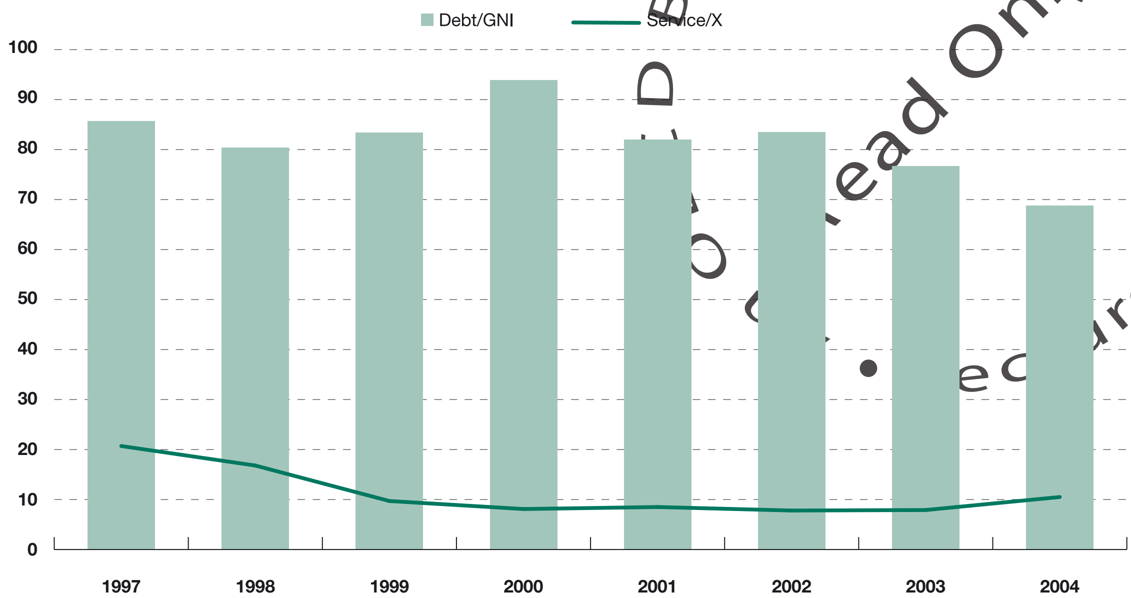
The country's economic and financial performance in recent years enabled it to reach the completion point of the HIPC Initiative on 8 April 2004. All of Niger's debt towards the Paris Club ($197 million) was cancelled on 12 May 2004. These performances have brought the country's foreign debt down to a manageable level until 2012. Between 2001 and 2004, debt servicing as a percentage of exports grew from 8.5 per cent to 10.5 per cent. The country's total debt is now nearly $3 billion. Foreign debt fell considerably following the decision at the G8 Summit (July 2005) to cancel the debt of the 18 poorest countries in the world (which includes Niger). Like the HIPC Initiative, the G8 agreement in Scotland will be "compensated for" by an egalitarian decrease in aid to each country once the IMF and ADB (African Development Bank) ratify the debt relief plan.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-1.6	-4.4	-4.0	-6.1	-7.7	-7.2	-6.8
Exports of goods (f.o.b.)	15.7	13.5	13.9	14.4	13.7	14.5	14.5
Imports of goods (f.o.b.)	-17.3	-18.0	-18.0	-20.4	-21.4	-21.7	-21.3
Services	-6.6	-4.9	-5.1	-5.1			
Factor income	-1.7	-1.2	-1.0	-0.5			
Current transfers	2.2	2.6	2.9	3.3			
Current account balance	**-7.7**	**-8.0**	**-7.3**	**-8.4**			

Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

Following the end of the PRGF agreement (signed in 2000) in June 2004, on 31 January 2005 the Executive Board of the IMF approved a three-year programme covering the 2005-07 period. This awards 6.58 million SDRs (Special Drawing Rights) under a new PRGF.

Structural Issues

Recent Developments

In its poverty reduction strategy, the government has placed considerable importance on the improvement of economic infrastructure. In order to reduce its great vulnerability to climatic hazards, Niger has put in place an action plan on climate change and climatic variability, which includes 50 precipitation-gauge stations as well as measures for staff retraining in climatology, seasonal forecasting, and agro-meteorology.

The communications system of Niger is modern, with several Internet cafés and a few long-distance calling centres in the capital Niamey. Mobile phone services are operational and coverage exists in the country's main towns. In 2003, the number of subscribers increased by almost 80 per cent. Celtel Niger, which launched operations in October 2001, had 65 000 subscribers at the beginning of 2004. Another company (Telecel) is also present on the market. Through the definition and adoption of a national plan for communications and information infrastructure, the Nigerien government is supplying technical assistance to optimise the use of new information and communication technologies.

The privatisation programme has been delayed, despite the creation of a national public procurement commission in 2004. The complete privatisation of the Nigerien oil products company Sonidep (Société nigérienne des produits pétroliers) and of the electricity provider Nigelec (Société nigérienne d'électricité) encountered several difficulties (rehabilitation funds, withdrawal strategies, lack of interest from regional and international investors, etc.). The government adopted a plan to privatise Nigelec based on selling 51 per cent of its capital under a 25-year concession. An initial call for tenders for Sonidep in 2003 was unsuccessful and, by April 2004, only 6.9 per cent of its capital had been sold to members of a consortium of local distributors of petroleum products, GNDPP (Groupement nigérien des distributeurs des produits pétroliers). Technical discussions aimed at completing these privatisations are ongoing between the government of Niger and the World Bank. In 2004, the World Bank approved a disbursement of $5.5 million to bring the Sonidep and Nigelec transactions to completion. The public investment withdrawal strategies for these two companies have been reconsidered and the Nigerien authorities have reassessed the privatisation programme with the technical support of the World Bank.

In terms of public-sector reforms, the Nigerien government has decided to focus on improving management and on transparency in public administration. The priority areas are, maintaining control over the public service and auditing the national pension fund (Fonds national de retraite). Five Treasury offices in the provinces were computerised and the Budget and Public Treasury departments are now linked by computer. Several other reforms were also carried out, including an improvement of the legal and regulatory business environment, which entailed an overhaul of the judicial system.

Financial reforms have focused on the banking sector, microfinance, postal banking services and social security. Several advances have been made. Two commercial banks – BCN (Banque commerciale du Niger) and BINCI (Banque islamique du Niger pour le commerce et l'investissement) – were restructured. The Nigerien authorities intend to appoint new members to the governing board of BCN in compliance with a restructuring plan approved by the BCEAO which is to be followed by the sale of the government's minority share in the bank. Audits of all major microfinance institutions have been carried out. They were scheduled for restructuring in 2005 on the basis of the audit results, along with the strengthening of the watchdog body of the Ministry of Finance and the Economy. The liquidation of CDN (Crédit du Niger) was scheduled to take place in 2005, and the CPCT (Caisse de prêts aux collectivités territoriales) was to be restructured. The postal sector was to be divided into two entities, La Poste du Niger, responsible for postal services, and its subsidiary, La Poste de Fina, for financial services. In recognition of the importance of an efficient insurance sector for private-sector development, the government decided to authorise training in Nigerien insurance companies in order to help them reinforce their management systems. Finally, an actuarial audit of the CNSS (Caisse nationale de sécurité sociale) was carried out.

Transport Infrastructure

Under a road network development plan, the Nigerien government has continued to implement a wide range of programmes to construct roads and, in production areas, to improve rural tracks leading to trunk roads and urban centres. Between 2003 and 2004, approximately 20 billion CFA francs were raised and invested directly in roads. This enabled 851 km of critical points to be dealt with and 130 km of works in progress to be completed. Road infrastructure works continued to accelerate in 2005, due to the works associated with the 5th Francophone Games scheduled for the end of 2005. By facilitating the access of the poor to socio-economic infrastructure, road improvement could contribute to strengthening food security. It could also further trade in agricultural surpluses as well as increase rural productivity and production.

The transport sector is essentially composed of road and air transport. Despite the country's immense size, the road network counts 3 677 km of asphalted roads, 4 107 km of modern and rudimentary earth roads, 6 781 km of rural roads and 60 000 km of tracks. Only 10 per cent of the network functions all year round. Air transport is primarily international and regional. The country has six airports, including Niamey's international airport. Though it jointly owns the 438 km Cotonou-Parakou line with Benin, Niger does not have a rail transport system. Nor, lacking a coastline, does it have a maritime fleet. Lastly, with the difficulty of navigating the River Niger, water transport is poorly developed and is largely restricted to certain sections of the river. Transport is a poverty reduction priority sector and is characterised by an inefficient regulatory framework arising from the weak organisation of the transport system and an uncompetitive environment.

Within the transport sector, the roads sub-sector is the most predominant, handling nearly all movements of people, goods and external trade. This sub-sector is characterised by: *i)* unequal geographic distribution of infrastructure; *ii)* increased costs due to the dilapidated state of the network, inadequate equipment and the high average age of rolling stock, all of which lead to increasing delays in clearing goods to foreign markets and in channelling imports; and *iii)* persistent insecurity on certain routes that the State is attempting to curb. This sub-sector thus forms a major obstacle to improving the competitiveness of Nigerien exports and a barrier to the country's economic and social development. The state of severe deterioration of the roads in fact impedes the circulation of goods, puts a strain on costs, and disrupts production programmes. Yet, in this landlocked country, without a coastline or railway lines, the roads sub-sector will long continue to play a key role in domestic trade, in regional trade with ECOWAS (Economic Community of West African States) countries, and in the promotion of foreign trade. Hence the fight against poverty requires the construction of a modern, all-season transport infrastructure.

Political and Social Context

In the socio-political area, Niger is currently developing a market system characterised by democratisation and the freedom of expression, opinion and movement. The country's relative political and social stability has enabled it to strengthen its relations with partners such as the Bretton Woods institutions. The victory of the incumbent MNSD (Mouvement national pour la société de développement) party in the December 2004 presidential and legislative elections gave President Mamadou Tandja's government a solid mandate. In its opposition role, the PNDS (Parti nigérien pour la démocratie et le socialisme), which won 34 per cent of votes in the presidential election, occasionally provokes social stirs in an effort to boost its popularity. On the whole, however, it respects the greater interest of social cohesion in one of the poorest countries in the world.

Introducing good governance is a major focus of the Nigerien government and is a central element in the poverty reduction strategy. Several measures have been taken in this regard. To strengthen the law, the government has adopted legislation and regulations pertaining to the criminal code, the code of military justice, military courts, anti-corruption measures, and the national independent electoral commission, CENI. The clarity of the reports of the national commission for human rights and liberties CNDHLF (National Commission on Human Rights and Fundamental Freedoms) has strongly contributed to strengthening civil liberties. Political initiatives include: creating a national dialogue body, the CNDP (National Political Dialogue Council); performing an organisational audit of the national armed forces; and holding transparent general elections in December 2004.

The government has supported local development and institutional and political stability through the measures which it has adopted to strengthen the decentralisation process. Its commitment is also demonstrated by the fact that it has signed 15 agreements relating to co-operation in the decentralisation process.

Three months after its formation, the Nigerien government encountered a wave of disturbances. Thousands took to the streets in the capital to protest against price increases in essential goods. After several weeks of strikes and demonstrations, the government was forced to withdraw the new fiscal measures and to reach an agreement with the demonstrators on a number of alternative measures. Protestors who had been imprisoned following the strikes were freed. In June 2005, almost 2 000 people again demonstrated in Niamey over the food shortages that followed the poor 2004 harvest, damaged by locust invasions and drought. Led by the CDSC (Democratic Co-ordination of Civil Society), the protestors demanded the free distribution of food to all those affected by the shortages.

The combined effects of drought and locust invasion in 2004 adversely affected Nigerien pasture and cereal production, provoking a food security crisis. In March 2005, a joint assessment by the Nigerien government, the WFP (World Food Programme), FEWS NET (Famine Early Warning Systems Network of the United States Agency for International Development), and CILSS (Permanent Inter-State Committee for Drought Control in the Sahel) concluded that 2.5 million people (or around 20 per cent of Niger's population) suffered from food insecurity and required food aid until August 2005. The lack of pasturage and animal feed and the rarity of veterinary services damaged livestock, which is the rural food base in agro-pastoral zones. This severe food security crisis hit pastoral and agro-pastoral zones north of the Maradi, Tillabery, Zinder and Tahoua regions. A survey carried out by MSF (Doctors Without Borders) in April-May 2005 in certain areas of Tahoua and Maradi revealed Global Acute Malnutrition (GAM) rates of respectively 19.5 per cent and 19.3 per cent, while the rates of Severe Acute Malnutrition (SAM) were found to be respectively 2.9 and 2.4 per cent. Another survey carried out in January 2005 by Helen Keller International and the WFP in the Maradi and Zinder regions estimated the GAM rates at around 13 per cent and the SAM rates at respectively 2.2 and 2.7 per cent. In these areas, high malnutrition rates – some of which are indicative of serious local problems – are invariably accompanied by further rises in already high infant mortality rates. According to MSF, at the start of 2005, infant mortality for children under 5 was 2.2 and 2.4 deaths per 10 000 per day in Maradi and Tahoua, respectively. The emergency threshold is 2 deaths per 10 000 individuals per day. Other factors which explain this nutritional situation, particularly in Maradi, are: widespread diarrhoeal illnesses; high infant and child mortality (above 350 per 1 000); early age of first pregnancy; and above all, infant feeding practices such as delaying breast-feeding for 4-5 days after birth, and in the interim, feeding newly-born infants with water, herbal teas and cow's milk. Besides food shortages, other factors contribute to the increase in malnutrition rates, such as: water shortages (and water of very poor quality); the inability to pay for medical services in government clinics; the inadequacy of infant care; and poor sanitation habits and conditions. All of these are aggravated by the structural poverty which is rife in a good proportion of the country.

The Nigerien government reacted to the food security crisis to the best of its ability, in collaboration with other partners (while following and continuously assessing the situation), by subsidising the sale of cereals from reserve stocks and by "lending" cereals to the most vulnerable regions. This programme of credit to agricultural production, implemented for the first time in this vast desert country, enabled destitute groups to obtain cereals without destroying development mechanisms. In practice, 100 kg of millet and sorghum were supplied to each family during three months in 2005 to bridge the gap before the harvesting season. According to government estimates, this required the release of 18 800 tonnes of grain.

This food crisis is not just a temporary emergency. It results from the poverty which is rife in the country — Niger is the second poorest country in the world, and more than 60 per cent of its 11 million inhabitants live on less than one dollar a day — and this poverty is inadequately addressed. The goodwill that much of the international community has demonstrated in reacting to situations of "famine" in Niger is welcome. But what is required is a similar commitment and sustained attention to remedying the chronic problems at the heart of the current localised crises. Without that, the same causes will again produce the same effects.

The May 2004 adoption of the rural development strategy reaffirmed the Nigerien government's intention to make the rural sector the driving force behind economic growth. The main goal of this strategy is to reduce rural poverty from 66 to 52 per cent by 2015, by creating an environment conducive to sustained economic and social development in which food security and sustainable management of natural resources are guaranteed. The various strategies for attaining this goal are: *i)* promoting access to economic opportunities; *ii)* reducing risk, improving food security, and managing natural resources with the aim of protecting living conditions; and *iii)* improving the capacity of public institutions and rural organisations to make management of the rural sector effective. Several efforts have been successfully undertaken to protect the environment and to prevent the desertification of Niger, including: substitution of wood energy by promoting new sources of renewable energy; dune fixation; rehabilitation of degraded land; reforestation, etc. Reforestation and soil erosion efforts have enabled 360 000 hectares of land to be planted with species of some economic value (such as eucalyptus). A new forestry law was adopted in June 2004. In April 2004, partners in a programme to combat the degradation of the Niger River Basin met in a summit in Paris with a view to accelerating implementation. Periodic meetings take place to implement sub-regional action plans aimed at regenerating the Niger River and Lake Chad drainage basins and to accelerate the fight against desertification.

Access to drinking water and hygiene remain problematic in rural areas, despite efforts to improve the supply of drinking water, the management of hydraulic resources and the provision of health and sanitation services. Several projects were launched, and during 2003-04, 245 wells and 90 mini-systems for freshwater provision were installed, and 145 existing wells were improved. During the same period, the 978 CGPE (Water Supply Point Management Committees) were created. In urban areas, the privatisation of the national water company brought about several changes, including the formation of two bodies charged with water management at national level (SEEN – Société d'exploitation des eaux du Niger – and SPEN – Société de patrimoine des eaux du Niger), as well as the creation of a department of water within ARM (Multisectoral Regulation Authority).

The illiteracy rate in Niger is more than 80 per cent. Education policy has multiple goals. In terms of basic education, the State is striving to widen access to formal and informal education, particularly for children in rural areas, girls, and the most vulnerable members of society. It is also working to improve the quality of schools. A ten-year programme for educational development (2003-13) has already made some noteworthy advances: 1 695 classrooms were built and equipped and 2 702 teachers were recruited. Between 2003 and 2004, primary school enrolment rates in rural areas went up from 46 to 48.4 per cent. Niger also launched literacy programmes, including PADENF (Projet d'appui au développement de l'éducation non formelle), financed by CIDA (Canadian International Development Agency). Thanks to this programme, between 2001 and 2005, 45 000 people in three of the country's administrative regions learned to read. The approach was so successful that it has already been reapplied in a new programme, PRODENF (Programme de développement de l'éducation non formelle), financed this time by the World Bank. This programme will extend to four administrative regions, with the goal of teaching 65 000 people to read by 2008. Building on the observation that the majority of young people excluded from education attend Koranic schools, CECI (Centre d'étude et de cooperation internationale) of Canada carried out a pilot project with the assistance of these schools. Several imams agreed to allow literacy classes to take place in Koranic schools. This project currently only involves eight schools, but there are plans to extend it to the country's some 5 000 Koranic schools.

With regard to technical and professional training, several institutional and material reforms have taken place, particularly the construction of technical and professional centres and the introduction of a BTS (advanced vocational training certificate) into this branch of the educational system. The policy of socio-professional integration includes youth training and job placement in several fields (health, entrepreneurship, etc.).

However, profound divisions are becoming ever more apparent in the population, particularly in education. As a result of the clauses enforced by donor countries and international financial institutions, 75 per cent of the teaching body has left on early retirement. This could reach 90 per cent by 2010. Though 92 per cent of women and 72 per cent of men are illiterate, teachers are being replaced by "education volunteers": untrained and unqualified young people earning a quarter of a teacher's salary and barred from unionising.

The locusts and drought of 2004 are the root of rising malnutrition rates, to which much be added the scarcity of drinking water and insufficient sanitation: 41 per cent of the population of Niger does not have stable access to an improved water supply, which increases the risk of outbreaks of transmittable diseases. It is estimated that more than 50 per cent of the population does not have access to primary health care. In 2005, a cholera epidemic hit the country: between 13 July and 19 September a total of 431 cases were recorded. In September, as part of its humanitarian activities, the World Health Organization (WHO) sent 100 000 malaria treatment packs to the country, where under normal conditions, 50 per cent of deaths of children under 5 years are due to malaria. WHO launched an appeal for $1.3 million to finance four projects: *i)* illness and nutrition monitoring and intervention in epidemics; *ii)* taking nutritional cases in hand; *iii)* supporting the development of a health policy aimed at improving access to essential health care and making care more reliable and more affordable; and, *iv)* strengthening health-sector co-ordination and information management. More than 3 500 women die in childbirth in Niger annually, though given that this figure reflects only hospital deaths, it is an under-estimation. This is essentially due to a high rate of home births (almost 81 per cent and, in 8 per cent of cases, without any assistance). In addition, infant and child mortality is one of the highest in the world, with a rate of 274 per 1 000.

In the light of its relatively rapid spread in some southern border regions, HIV/AIDS is a huge concern for the government. The infection rate in the 15-49 age group was estimated at 1.5 per cent in 2005, compared to 0.87 per cent in 2002. In 2002, significant differences between urban and rural areas were however noted, with rates of 2.08 and 0.64 per cent respectively. A national survey carried out in 2002 registered the following infection rates: teachers (1.4 per cent); truck drivers (1.7 per cent); prison inmates (2.8 per cent); soldiers (3.8 per cent); and, sex workers (25.4 per cent). The rapid spread of the AIDS virus in the country is linked to unprotected sex practices, but also to sizeable seasonal migrations, which are often accelerated during droughts, to the high level of illiteracy, to socio-cultural factors (polygamy, premature marriage, excision, sororate, and levirate), to the inadequacy of medical supervision, to the absence of ARV (anti-retroviral) therapy, to a lack of information in those infected, and to the slight consideration given to the socio-economic impact of HIV/AIDS, particularly in rural areas. All of these factors combine to reduce the impact of government and NGO initiatives to combat the disease with the support of external partners, including the World Bank Group (health-care improvement project). If energetic measures are not taken quickly to step up prevention and the fight against the epidemic, the accelerated spread of the virus since 2002 could deprive several sectors of necessary qualified manpower. To lead the fight against HIV/AIDS, the government is implementing a national strategic framework over the 2002-06 period. Finally, to fight against malaria, which is also a public health issue (with around 850 000 cases recorded annually), the government is pursuing its 2001-05 strategic plan.

Nigeria

key figures

• Land area, thousands of km²	924
• Population, thousands (2005)	131 530
• GDP per capita, $ PPP valuation (2005)	1 776
• Life expectancy (2000-2005)	43.3
• Illiteracy rate (2005)	29.2

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/453148080188

Nigeria

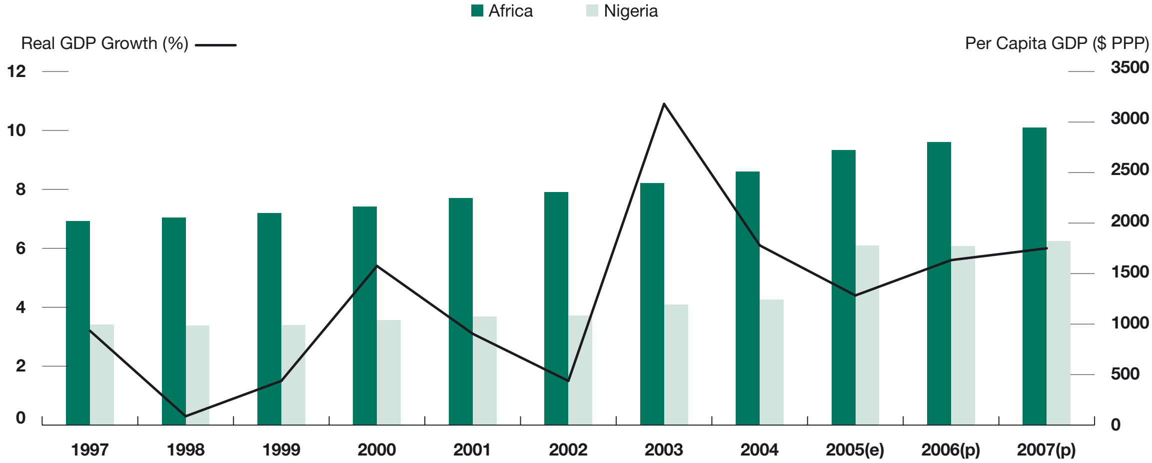
WITH A PRESIDENTIAL ELECTION looming in early 2007, Nigeria's economic and political situation is approaching a critical juncture. Despite encouraging progress, it is too early to judge whether the reforms implemented under President Obasanjo's administration will prove to be durable enough to reverse the Nigerian paradox: abysmal poverty in the midst of an abundance of natural and human resources.

With respect to key Millennium Development Goal (MDG) poverty and social indicators, Nigeria compares unfavourably with the averages for low-income countries. This sad state of affairs is the culmination of decades of poor economic management, malfunctioning institutions and corruption resulting in low economic growth, infrastructure decay, and the accumulation of large external and domestic debts.

The democratic election of President Obasanjo in 1999 marked a potential turning point for Nigeria. In March 2004, the federal government unveiled the latest reform programme, the National Economic Empowerment and Development Strategy (NEEDS), with a simultaneous state-level programme, the State Economic Empowerment and Development Strategy (SEEDS). The NEEDS differs in important ways from previous programmes: it is thought to be more far-reaching, realistic and better co-ordinated, and to reflect the input of all the country's stakeholders. The NEEDS initiative appears to be yielding results. Macroeconomic indicators have shown remarkable improvement in recent years, although the extent to which these gains reflect improved policies or high oil prices remains to be seen. According to the official statistics, strong GDP growth continued in 2005 at an estimated rate of 4.4 per cent, although more recent estimates suggest a growth rate closer to the 6.1 per cent recorded in 2004[1], still well below the medium-term NEEDS target of 10 per cent per annum.

Political stability together with favourable internal and external factors led to dramatic macroeconomic improvements.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

1. This was noted in President Obasanjo's 2006 Budget Speech. The 6 per cent growth is, however, higher than the forecasts produced by a number of international organisations and agencies. For instance, the Economist Intelligence Unit (EIU) estimates GDP growth at 4.8 per cent in 2005.

Nigeria's current-account surplus in 2005 widened and international reserves increased substantially, but inflation showed little sign of abating. Another noteworthy achievement for Nigeria in 2005 was the historic obtainment of debt reduction from the Paris Club, writing off 67 per cent (equivalent to $18 billion) of Nigeria's external debt.

Recent Economic Developments

Macroeconomic developments in recent years have been encouraging, with GDP growth averaging 6 per cent for 2000-05. After peaking at 10.2 per cent in 2003, growth slowed to 6.1 per cent in 2004. Growth in 2005, estimated at 4.4 per cent, a much lower rate than the government's figure, was broadly based, with the oil, agriculture, construction and telecommunications sectors performing particularly well. High world oil prices have provided a big boost to the oil sector in recent years. In 2005, agricultural output increased by 7 per cent, up from 6.2 per cent in 2004, reflecting both favourable weather conditions and government efforts to increase farmers' access to credit and fertilizers. Construction was estimated by the government to grow by 10 per cent in 2005 as a result of booming real-estate development. Nigeria's telecommunications sector grew by 12 per cent following its accelerated liberalisation and privatisation, which led to the introduction and rapid spread of the global system for mobile communications (GSM) services. The number of mobile phone lines increased from 230 000 in 2001 to 8.3 million in 2004 while fixed land lines increased by an average of 20 per cent annually, from 600 000 to 1.03 million during the same period. Growth in the manufacturing sector, at 8 per cent in 2005, is lower than the 10 per cent recorded in 2004.

Agriculture accounted for nearly one-third of GDP in 2004: mining (primarily oil) accounted for about 36 per cent of GDP. Crude petroleum production was estimated at 2.5 million barrels per day (mbd), about 2.05 mbd of which is destined for exports. At an estimated average price of $55 per barrel in 2005, the price of Nigeria's reference Bonny Light crude oil increased by about 11 per cent during the preceding year as a result of high world prices. Wholesale trade represented about 15 per cent of GDP in 2004, whereas the manufacturing sector accounted for only 5 per cent of GDP despite its recent strong growth.

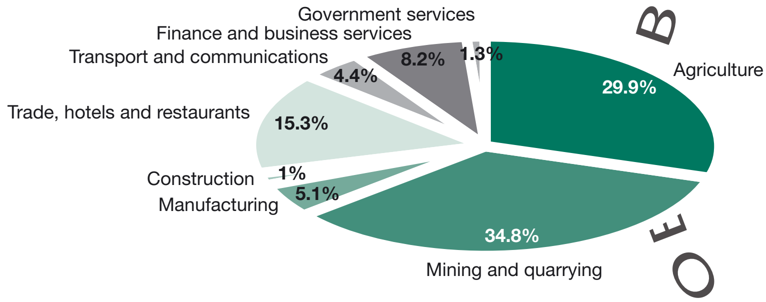
The sectoral developments mentioned above reflected strong growth in private consumption and private investment in both 2004 and 2005. In terms of the composition of demand, the main development was a surge in net exports demand to 18.8 per cent of GDP in 2005, compared with 8.2 per cent of GDP in 2003, and -0.9 per cent in 2002, also reflecting the oil-price increases of recent years. Correspondingly, domestic consumption and investment shares declined in 2003 and 2004, reflecting the increase in the share of exports in total demand.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**17.1**	**26.2**	**23.9**	**22.4**	**22.5**	**23.8**	**25.6**
Public	5.4	10.0	9.7	9.1	8.9	9.0	9.3
Private	11.7	16.2	14.2	13.2	13.5	14.7	16.3
Consumption	**74.8**	**74.6**	**67.9**	**60.4**	**58.8**	**60.8**	**63.0**
Public	7.1	24.2	23.7	22.1	22.0	22.1	22.1
Private	67.7	50.4	44.2	38.3	36.7	38.7	40.9
External sector	**8.0**	**-0.9**	**8.2**	**17.2**	**18.8**	**15.5**	**11.4**
Exports	47.4	40.8	49.7	54.6	53.9	51.3	48.3
Imports	-39.3	-41.6	-41.5	-37.4	-35.2	-35.8	-36.9

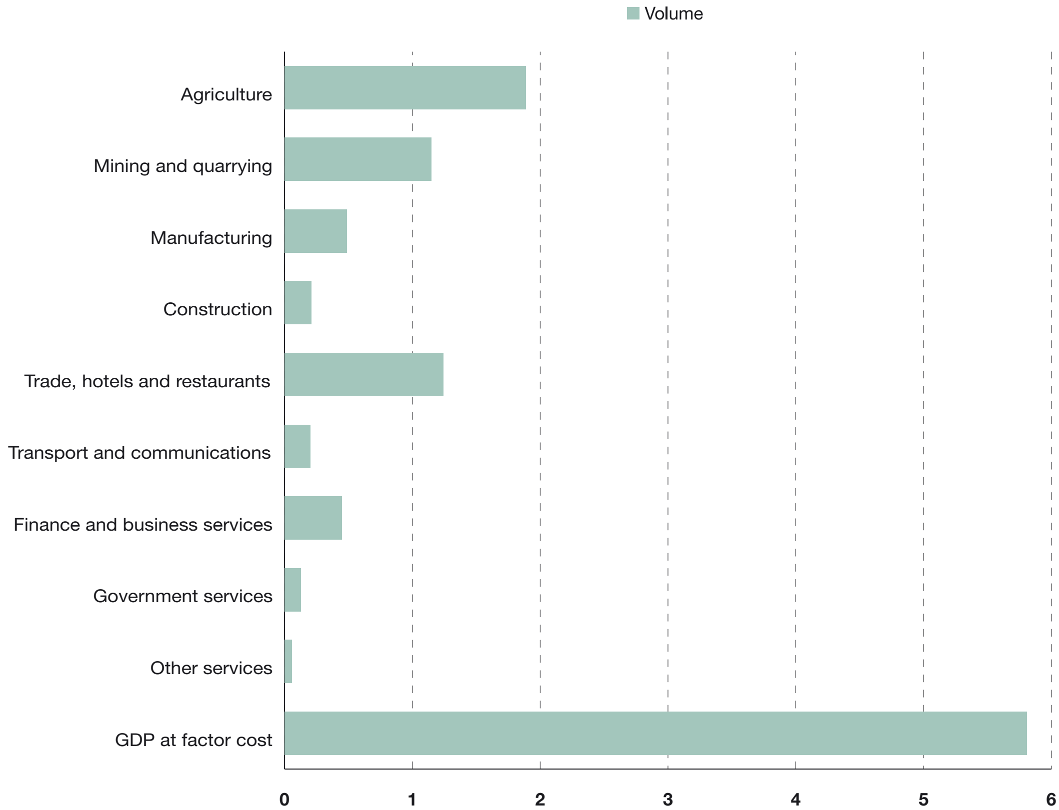
Source: Domestic authorities' and IMF data; estimates (e) and projections (p) based on authors' calculations.

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

Macroeconomic Policies

Fiscal Policy

Prudent macroeconomic management has been one of the government's clearest and most impressive achievements. The government has introduced a medium-term fiscal-expenditure framework (MTEF) to focus macroeconomic strategy and prioritise expenditure. Specifically, the 2005 and 2006 budgets were geared towards the achievement of the MDGs. Fiscal policy was relatively prudent in the context of windfall oil revenues in 2004 and 2005, as the overall fiscal balance moved from a deficit of 1.3 per cent of

GDP in 2003 to a surplus of 7.7 per cent in 2004. In 2005, the fiscal deficit (not including windfall oil profits) was about 1.4 per cent of GDP thanks largely to much higher crude oil prices than anticipated. Government expenditure, although increasing in absolute terms, fell to 33.5 per cent of GDP in 2005 from 35.4 per cent in 2004, with most of the drop associated with current expenditure and interest on the public debt. Measures such as freezing civil-service hiring, tightening the budgets of parastatals and reducing non-essential recurrent expenditures were introduced to control government spending.

Total government revenue in 2005 (not including windfall oil profits) was estimated at $12.5 billion (NGN1.63 trillion [nairas]), resulting in a budget deficit of 1.4 per cent of GDP. The fiscal deficit is expected to rise to about 2.4 per cent of GDP in 2006, mainly due to declining oil prices.

It should be noted, however, that if the 2005 fiscal figures included the oil windfall revenues (as they do in Table 2), the fiscal balance would show a surplus of 12.4 per cent compared with 7.7 per cent in 2004. The government has recently set up a special holding account for temporary increases in oil revenues so as to smooth government spending and to reserve some of the windfall revenues for infrastructure development. In 2004, nearly $6 billion from oil revenues were set aside, with 50 per cent earmarked to a special "volatility cushioning fund" intended to safeguard against oil-price volatility; the remainder was shared among the three tiers of government for development financing.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**20.3**	**36.4**	**37.1**	**43.1**	**45.9**	**44.5**	**42.2**
Tax revenue	6.9	8.9	8.3	7.2	6.9	7.1	7.4
Other revenue (including oil)	13.4	27.6	28.8	35.8	39.0	37.4	34.8
Total expenditure and net lending[a]	**19.3**	**40.7**	**38.4**	**35.4**	**33.5**	**33.1**	**34.0**
Current expenditure	6.2	16.2	13.1	11.0	9.9	9.2	9.1
Excluding interest	*3.7*	*9.8*	*8.6*	*7.4*	*7.4*	*7.4*	*7.5*
Wages and salaries	1.6	6.5	4.9	4.6	4.5	4.4	4.3
Interest	2.5	6.4	4.6	3.6	2.5	1.8	1.6
Capital expenditure	7.8	10.9	9.2	8.1	7.9	8.0	8.3
Primary balance	**3.4**	**2.2**	**3.3**	**11.3**	**14.8**	**13.2**	**9.8**
Overall balance	**1.0**	**-4.2**	**-1.3**	**7.7**	**12.4**	**11.4**	**8.2**

a. Only major items are reported.
Source: Domestic authorities' and IMF data; estimates (e) and projections (p) based on authors' calculations.

The government is seeking to improve budget monitoring and transparency. To this end, the government publishes mid- and end-year budget performance reviews, monthly reports on revenues disbursed to all tiers of government, and a summary of expenditures in the past five years.

Monetary Policy

Nigeria's monetary policy in 2005 was aimed at reducing inflation to around 10 per cent. At the end of the first quarter of 2005, on the basis of a 12-month moving average, inflation was running at 12.2 per cent with a seasonally adjusted 13 per cent month-over-month rate. The broad money stock (M2) rose by 17.5 per cent in 2005, a significant deviation from the NEEDS medium-term target of 15 per cent (2004-07), providing some cause for concern about upward pressure on inflation. The growing money supply, associated with the increased foreign-exchange reserves, has also led to declining interest rates, especially in the inter-bank and Treasury-bill markets. For instance, the weighted average inter-bank call rate declined from 15.9 per cent in 2004 to 12.1 per cent in 2005. Similarly, the weighted average prime lending rate declined from 19.6 to 18.1 per cent during the same period.

In order to slow down money growth, the Monetary Policy Committee (MPC) adopted a number of measures to counter excess liquidity in the system, including raising the Reserve Requirement (RR) and revising the definition of liquid assets used for monetary targeting to include three-year bonds.

One of the thrusts of monetary policy in Nigeria is to maintain a competitive but stable exchange rate, which is based on the Dutch Action System (DAS). In 2005, monetary authorities maintained a 3 per cent band around a benchmark rate of NGN133 per $1, which resulted in the stabilisation of the exchange rate at NGN129 per $1.

In summary, further efforts at monetary and fiscal restraint are in order, given the booming economy and rapid money growth. The prospects for continued fiscal restraint are clouded, however, by the upcoming election.

External Position

Nigeria's balance of payments is heavily influenced by developments in the international oil market, as the country is both a major exporter of crude oil and an importer of petroleum products. Thanks to higher oil prices, Nigeria's current-account balance swung from a deficit of 2.7 per cent of GDP in 2003 to a surplus of 4.6 per cent of GDP in 2004. This was mainly because the trade surplus as a percentage of GDP increased from 17.3 percent in 2003 to 25.2 per cent in 2004. A marginally higher trade-balance surplus of 26.9 per cent of GDP was estimated for 2005.

The level of international reserves more than doubled during 2004 and 2005, from nearly $20 billion in 2004 to $27 billion in 2005, equivalent to 18 months of imports.

Nigeria's external debt declined as a percentage of both exports and GDP thanks to booming exports and output and will improve further following the Paris Club decision to write off a substantial part of Nigeria's debt. Under the agreement, Nigeria is required to clear its $6.3 billion arrears and to buy back the remaining debt stock at a market-related discount of 25 cents to the dollar, which together would require an expenditure of $12 billion of Nigeria's reserves. While the large payment has elicited some opposition in Nigeria, it seems clear that the deal could be highly beneficial to the country if it takes advantage of reduced debt-servicing costs to finance economic and social development. The debt reduction could also prove to be a catalyst for improved confidence, thereby boosting access to foreign capital, including trade credit and inward foreign direct investment (FDI).

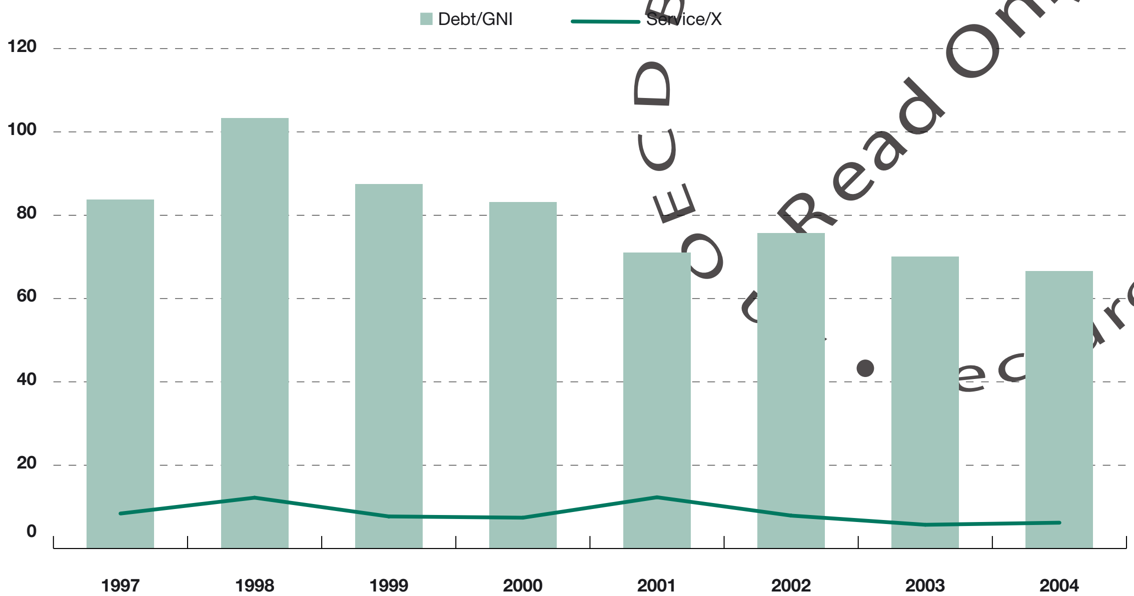
Nigeria also plays an important role in regional, continental (African Union) and international trade agreements. On the regional front, the Economic Community of West African States (ECOWAS) is inching closer to a customs union. Harmonisation of Nigerian tariffs with the four ECOWAS bands would entail a drastic lowering and simplification of Nigerian tariffs. Nigeria has also pledged to remove all import bans by the end of 2006 and to improve customs administration, thereby reducing endemic smuggling from neighbouring countries. The ECOWAS customs union is viewed as a step on the way to an economic and monetary union with a single currency under the West African Monetary Zone (WAMZ). At the continental level, President

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	18.2	8.7	17.3	25.2	26.9	24.0	20.2
Exports of goods (f.o.b.)	44.7	37.8	46.7	51.8	51.9	49.4	46.4
Imports of goods (f.o.b.)	-26.5	-29.2	-29.5	-26.6	-25.0	-25.4	-26.2
Services	-19.8	-9.5	-9.1	-8.2			
Factor income	-2.2	-13.7	-14.4	-16.3			
Current transfers	1.4	3.0	3.6	3.8			
Current account balance	**-2.4**	**-11.6**	**-2.7**	**4.6**			

Source: : Domestic authorities' and IMF data; estimates and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

Obasanjo, as chairperson of the Heads of State and Government Implementation Committee of the New Partnership for Africa's Development (NEPAD), has played an influential role in moving the NEPAD agenda forward. Nigeria also chaired the Africa Group of the Resident Representatives of African countries at the Word Trade Organisation (WTO), which is attempting to build an African consensus on the Doha Round of trade negotiations. Nigeria is playing a critical role in the ongoing Economic Partnership Agreement (EPA) negotiations between the European Union (EU) and ECOWAS. The EPA, expected to come into force by January 2008, will replace the current Cotonou Agreement, which provides preferential market access into the EU for African, Caribbean and Pacific (ACP) countries.

Structural Issues

Recent Developments

The economic reforms in Nigeria are aimed at generating a conducive environment for private investment. Key pillars of the reform process include improved macroeconomic management, reform of the financial sector, institutional reforms, privatisation and deregulation, and improvement of the infrastructure. The importance of infrastructure for economic growth and development cannot be overemphasised. The poor state of electricity, transport and communications is a major handicap for doing business in Nigeria.

The government has also made progress in consolidation of the banking system. Prior to the reforms, the industry was highly fragmented, with many banks having very small and undiversified capitalisation. The reforms stipulate a minimum paid-up capital of $188 million, up from $15 million, with a deadline for compliance at the end of December 2005, which resulted in a record number of bank mergers and acquisitions. As a result, the number of banks in Nigeria has shrunk from 89 in 2004 to 25 in December 2005. With a much higher capitalisation base, the Nigerian banking sector will be expected to play an important role in financing economic development through increased credit to the private sector.

The privatisation and deregulation programme is also a notable area of success. The programme started in 1989 following the inauguration of the 11-member Technical Committee on Privatisation and Commercialisation (TCPC) on 27 August 1988. In the first round of privatisation, between 1989 and 1993, the TCPC privatised 55 firms. Offer for sale was the predominant mode of privatisation. The second round of privatisation, which began in 1999, is aimed at full or partial divestment of government interest in 98 public enterprises in 14 sectors. Since 1999, approximately 45 public enterprises have been privatised. The most remarkable progress has been in the communications sector, where the number of cell-phone lines increased from less than 0.25 million in 2001 to 8.3 million in 2004. Thus, the deregulation of the telecommunications industry has greatly improved access to telecommunications services. Similarly, the deregulation of downstream petroleum has been accompanied by reductions of subsidies on petroleum products, saving $1 billion.

Transport Infrastructure

Nigeria's transport sector contributed about 2.4 per cent to real GDP in 2004, with road transport alone accounting for nearly 86 per cent of the transport-sector output. Recently, traffic handled by the top three modes of transport (road, air and maritime) has risen considerably. In the road sector, the number of vehicles increased at an average annual rate of 17 per cent, from 1.3 million in 2000 to 2.2 million in 2004. In the case of air transport, freight tonnage and passenger traffic increased by 54 per cent and 9.4 per cent per annum, respectively, during the same period. In the area of maritime activities, merchandise shipments and passenger traffic increased at average annual rates of 14.2 per cent and 5.4 per cent, respectively, between 2000 and 2004.

Nigeria's transport-infrastructure services are inadequate and in deplorable condition. The country has a total of 193 200 km of roads, 3 775 km of rail, 19 airports, 62 air strips, 13 major ports and 3 000 km of navigable waterways. Only 15 per cent of the roads are paved, and about 23 per cent of the paved roads are in bad condition, requiring urgent rehabilitation. The growth in the number of road accidents reached an average of 3.1 per cent per annum between 2000 and 2004, rising from 12 705 to 14 279 respectively. The railway system is still operating with the same narrow gauge lines built during the colonial era and the recent accidents involving domestic airlines attest to the serious deficiencies of the Nigerian air-transport system.

Some of these problems are, however, currently being addressed by the ongoing transport-sector reform initiatives. The Bureau of Public Enterprises (BPE) is charged with reform and privatisation of the transport sector in Nigeria. The reform agenda is centred on setting up a new legal and regulatory framework for private-sector participation in the transport sector with the establishment of the National Transport Commission as an independent regulator for the sector. The National Council on Privatisation (NPC), in collaboration with the Federal Ministry of Transport (FMOT), has finalised a new national transport policy, which supersedes the existing policy developed in 1993.

Deficiencies of the road sector pose serious problems for the national economy. It is estimated that inadequate road investment and maintenance will lead to increased costs of $570 million (NGN80 billion) in vehicle-operating costs and road accidents. The responsibility for construction and maintenance of the national road network in Nigeria is shared among the three tiers of government as follows: federal government (17 per cent), state government (16 per cent) and local government (67 per cent). At the federal level, the Federal Roads Maintenance Agency (FERMA) is responsible for federal roads, while the Rural Development Department of the Federal Ministry of Agriculture and Rural Development is responsible for rural roads. The current construction and maintenance of roads falls short of needs in both rural and urban areas.

Reform of the road sector has just begun. The BPE is collaborating with the Roads Sector Development Team of the Federal Ministry of Works in leading the reform process. The reform will address deferred maintenance and investment through public-private partnership (PPP) arrangements or concessions. Financing is to be improved through a "Road Fund" obtained from road-user charges. An autonomous agency known as the National Roads Board (NRB) is to manage the fund, while concessions will be granted to private operators on a build-operate-and-transfer (BOT) basis.

The federal government solely owns, operates, manages, funds and controls the railway system through the Nigerian Railway Corporation (NRC), a parastatal under the Federal Ministry of Transport. The existing antiquated railway system limits train speeds and precludes simultaneous bi-directional usage. Additional rail routes are also needed, especially an east-west connection, as set out in the Strategic Vision of the NRC. Nigeria also requires a railway system with connections to neighbouring countries. Recently, Nigeria and China have begun negotiations for a $2 billion bilateral loan to rehabilitate, reconstruct and develop the ailing Nigerian railway system.

The current rail-sector reform intends to achieve a vertically integrated concession framework for the following routes:

- Western Railway: linking Lagos to Kaura Namoda to Nguru via Kaduna, including all the branch lines along that route.
- Eastern Railway: connecting Port Harcourt to Maiduguri via Kafanchan, including the Kaduna to Kafanchan link and all branch lines along that route.
- Central Railway: a new route (ongoing construction) from Itakpe to Warri via Ajaokuta.

Seaports and inland waterways play a crucial role in shipment of freight. More than 80 per cent of Nigeria's merchandise trade is handled by the seaports. The navigable waterways are centred on the Niger and Benue rivers, which join at Lokoja and flow into the Atlantic Ocean. The coastal waterways extend from Badagry through Warri to Calabar. The Nigerian Ports Authority (NPA) oversees all public and private activities at the ports while the National Inland Waterways Authority (NIWA), a parastatal of the Federal Ministry of Transport, is responsible for the regulation and management of the waterways. The installed capacity of Nigerian ports is adequate at present. The problem lies in port management. Due to corruption and administrative inefficiency, cargo handling times and costs in Nigeria's ports are among the worst in West Africa. Shipment of cargo from and to Nigeria is entirely carried out by foreign shipping lines despite measures to encourage indigenous shipping. The Nigerian inland waterways have also remained underdeveloped and underexploited as a mode of transport. To help address this problem, NIWA will be restructured. Port reform also revolves around a new legal and regulatory framework for enhanced private-sector participation.

Nigerian aviation is overseen by the Federal Airport Authority of Nigeria (FAAN), the National Aviation Management Agency (NAMA) and the National Civil Aviation Authority (NCAA). FAAN manages 19 airports, including 5 international airports, but is viewed as inefficient and is slated for privatisation under either a management contract, following restructuring, or the sale of airports. Nigeria's air-transport industry has recently been plagued by disasters involving domestic airlines. In October 2005, for instance, a Bellview Airlines flight from Lagos to Abuja crashed five minutes after take-off, killing all 111 passengers and 6 crew members. Similarly, in December 2005, a Sosoliso plane, flying from Abuja to Port Harcourt, exploded during landing, killing all 107 people onboard, including 7 crew members.

Improved transport infrastructure requires additional investment and better regulation. Nigeria is a large country with low population density in some regions, requiring large capital investments in transport. The overarching strategy of the present government is to rely on PPPs. The liberalisation and consolidation of the banking sector, it is hoped, will help mobilise private capital for the transport sector. Foreign investment is also critical. Successful PPPs also require a sound regulatory framework. The recently formed Africa Infrastructure Consortium and the NEPAD infrastructure initiative might prove helpful, but ultimately it will be up to the Nigerian government to tackle the notorious corruption, insecurity and waste that plague Nigerian transport institutions such as ports and airports.

Political and Social Context

Since 1999, when the current democratic government of President Obasanjo came to power, there has been substantial progress in establishing democratic institutions, which underpin the current economic reform. Elections have been held and have been largely successful, despite the controversies that surrounded the 2003 elections, and the legislature has now established a workable relationship with the executive branch of government. However, with less than one year to the end of President Obasanjo's second term in office, the political situation in Nigeria is unsettled, as politicians jostle for position. The political frenzy has also been stoked by the intra-party squabble of the ruling People's Democratic Party (PDP). Supporters of the president are pushing for a constitutional amendment to allow for a third term, placing themselves openly in conflict with the presidential aspirations of the vice-president. The run-up to the 2007 election is sure to test Nigeria's young democracy.

Progress has been made in combating corruption, as evidenced by the work of both the Independent Corrupt Practices Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC), with a substantial number of arrests and prosecutions. Close co-operation between these agencies and Interpol has resulted in the arrest in the United Kingdom of two state governors for alleged money laundering. Nevertheless, there have yet to be many convictions of high-level officials, and Nigeria's ranking in Transparency International's corruption perception index improved only slightly in 2005 from second-to-last to sixth-to-last. Some scepticism regarding the extent of government commitment remains. Moreover, there are concerns that the anti-corruption drive has become politicised[2].

Social indicators have improved only marginally. Nigeria ranked 158 out of 177 countries in the United Nations Development Programme (UNDP) Human Development Index (HDI) in 2005. The country's HDI, at 0.453, is lower than the average HDI for sub-Saharan African countries (0.515) and marginally above the average for countries in the ECOWAS (0.434). This relatively low level of human development is a source of policy concern and is indicative of the efforts needed to achieve the MDGs. A household survey conducted by the government in 2003-04 showed that 54.4 per cent of the population is poor, with a higher poverty rate in rural areas of 63.3 per cent. Income inequality, measured by the Gini coefficients for urban and rural areas in Nigeria at 0.554 and 0.529, respectively, is very high. HIV/AIDS is becoming an increasing concern in Nigeria, with the infection rate rising to about 6 per cent in 2004, up from approximately 4.5 per cent in mid-1990s. The government aims to reduce the HIV/AIDS prevalence rate to 4-5 per cent by 2015. Meanwhile, the targets for 2007 are to reduce by 50 per cent the rates of both the prevalence of sexual transmission and the incidence of mother-to-child transmission of HIV, to ensure 100 per cent access to antiretroviral drugs and to ensure that at least 30 per cent of health institutions in the country are able to offer effective care for HIV/AIDS and its management. The government has established a national policy on HIV/AIDS, which is co-ordinated by the National Action Committee on AIDS (NACA). The policy focus is on treatment and prevention through medical attention to those affected, advocacy, information and education campaigns, encouraging behavioural change, condom distribution and targeting of vulnerable groups. NACA, which is funded largely by the International Development Association (IDA) and the Global Fund to Fight AIDS, Tuberculosis and Malaria, has adopted a multi-sectoral approach to implementing its high-priority and demand-driven programmes. Although progress is being made in achieving these targets, there is need for a more aggressive education campaign, particularly in the rural areas.

The Nigerian government faces the Herculean task of addressing the challenges posed by decades of deterioration in health and education services. Public-health expenditure accounted for only 1.2 per cent of GDP in 2004. Per capita health expenditure (in

2 See, for example, the Economist Intelligence Unit (EIU) 2005 country report on Nigeria.

purchasing-power parity terms) in 2004 was about $50, compared with nearly $700 for South Africa, $400 for Botswana and $110 for Côte d'Ivoire. Similarly, the number of physicians per 100 000 people in Nigeria in 1990-2004 was 27, lower than that for comparable countries such as Egypt (212), Tunisia (70) and South Africa (69). In terms of the MDG-based health indicators, the record is also relatively disappointing. Immunisation rates for one-year-olds against the measles and tuberculosis in 2004 were 35 per cent and 48 per cent, respectively, and only 35 per cent of births were attended to by skilled health workers in 1995-2004. Mortality rates (infant, under-five and maternal) have declined in recent years but are still quite high by international standards: infant mortality declined from 140 to 98 per 1 000 live births between 1970 and 2004, under-five mortality declined from 265 to 198 per 1 000 live births during the same period, and maternal mortality declined from 1 000 to 704 per 100 000 between 1990-96 and 2000-04. In spite of the progress made in recent years, a lot remains to be done to achieve the health-related MDGs.

Nigeria's education system has also suffered from policy neglect in the past two decades or so. Total expenditure on education in 2004 was less than 1 per cent of gross national income – far below the continental average of 4.71 per cent. Under-funding of the education system has left the school systems, including the formerly excellent universities, in deep crisis in terms of standards and facilities, both declining.

The government has, however, started to address some of these problems. Increased spending on education and Universal Basic Education (UBE), aimed at providing free education for all pupils at the primary and junior secondary school levels, has enabled the rehabilitation of schools and contributed to improvements in school enrolment rates. The total gross primary-school enrolment rate increased from 98 per cent in 2000 to 120 per cent in 2005, while the total secondary-school enrolment rate rose marginally from 34 to 36 per cent during the same period.

Although school enrolment ratios have recently increased, there is a considerable gender gap at all levels. For instance, the primary-school enrolment rate in 2004 was 132 per cent for male as opposed to 107 per cent for female. The secondary-school enrolment rate was 40 and 32 per cent for male and female, respectively. Based on the current trends, it is highly unlikely that Nigeria will be able to achieve the gender-related MDG.

Another major policy challenge facing the Nigerian government is related to the twin problems of corruption and crime. As stated earlier, some progress is being made in dealing with corruption, but the same cannot be said about crime. Insecurity of both life and property is a major source of concern as illustrated by the recent growth in the number of ethnic conflicts, politically motivated killings, armed robbery, theft of property and armed militia in the Niger Delta. Although the government has tried to address some of these problems, the strategies so far have failed to come to grips with the underlying causes. The roots of crime in Nigeria include widespread poverty, income inequality, high unemployment, corruption, an underpaid and ineffective police force, a weak judicial system, massive rural-urban drift and breakdown of societal values. The NEEDS strategy to tackle the insecurity problem calls for an increase in the number and effectiveness of the police, reforming the prison services, improving the judicial system and protecting human rights. While these measures are desirable, they must be associated with effective growth and poverty-reduction strategies that will create jobs, encourage rural development and provide social safety nets for the poor.

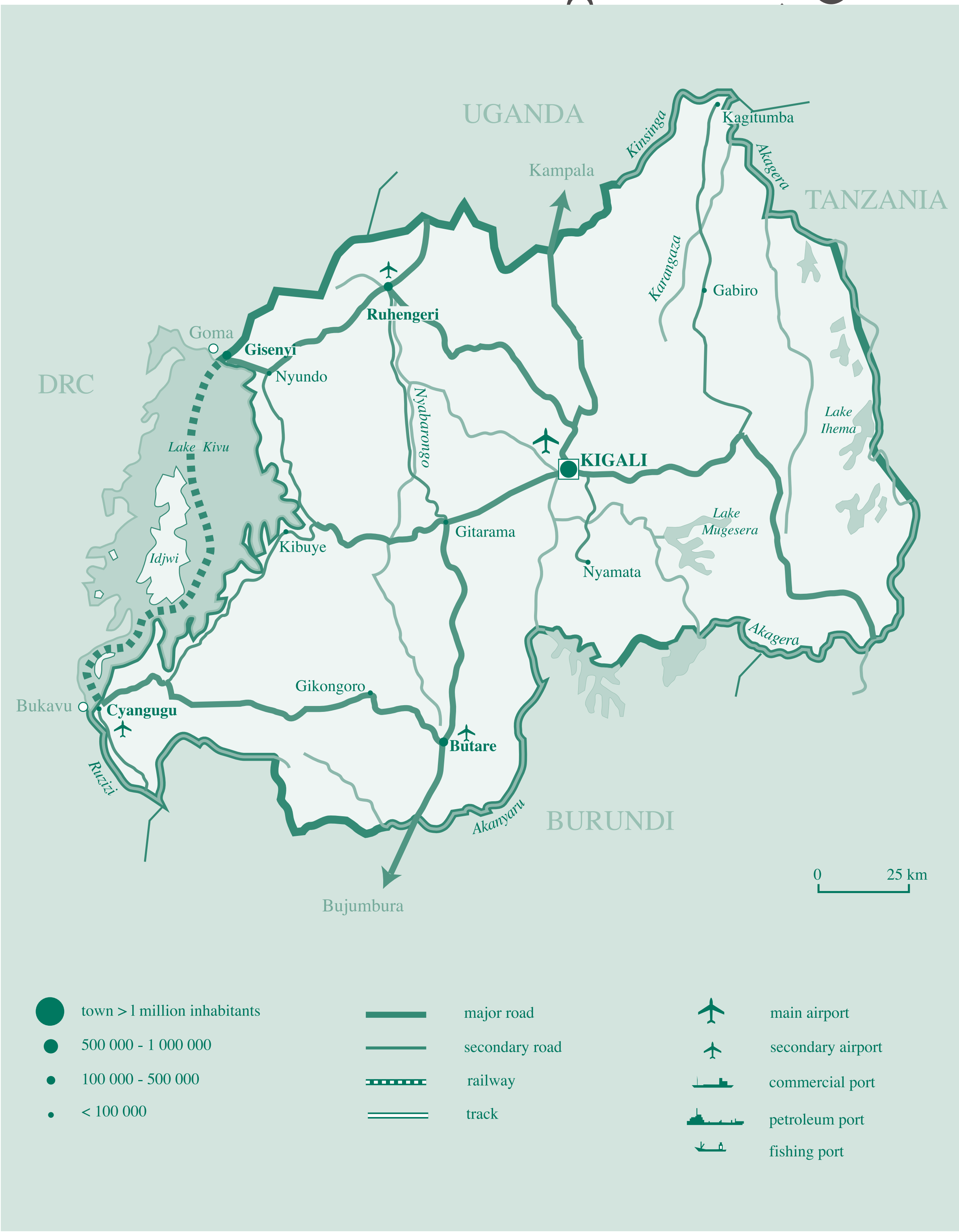
Rwanda

key figures

• Land area, thousands of km^2	26
• Population, thousands (2005)	9 038
• GDP per capita, $ PPP valuation (2005)	1 594
• Life expectancy (2000-2005)	43.6
• Illiteracy rate (2005)	27.3

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/067115816684

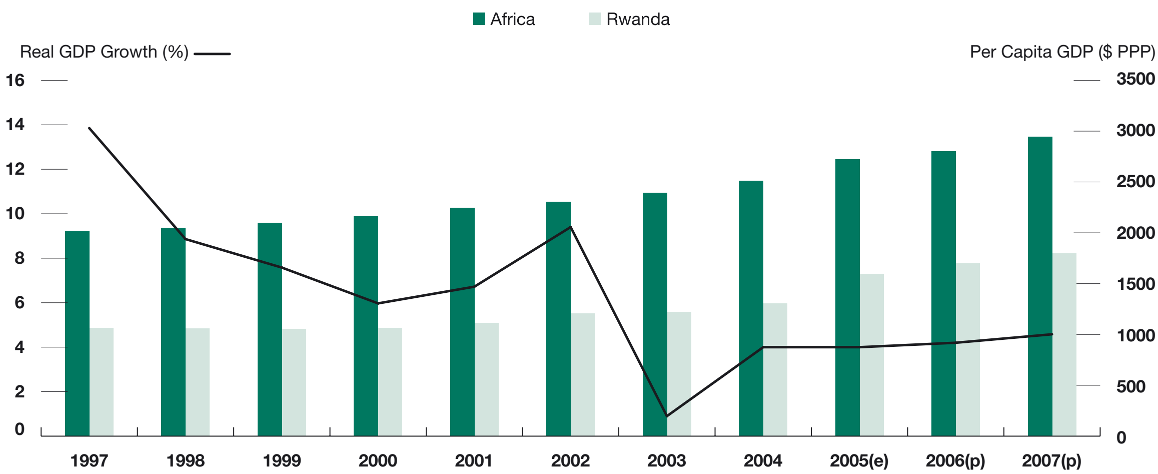
Rwanda



ELEVEN YEARS AFTER THE GENOCIDE that devastated the country and left nearly one million people dead, Rwanda continues to implement its programme for economic, structural and social reform. The programme has already met a number of major milestones. After experiencing low growth in 2003 due to poor weather conditions, real GDP growth recovered to 4 per cent in 2004 and was estimated to reach 4.2 per cent in 2005. The economy remains essentially based on subsistence agriculture and progress in Rwanda's structural transformation remains slow, as indicated by a stagnating share of manufacturing in GDP. Rwanda remains one of the poorest countries in the world in terms of income poverty as well as in terms of human development. Due to the bad weather Rwanda experienced in 2003 and 2004, little progress has been made recently in reducing income poverty, especially in rural areas. A variety of social indicators have been improving, however, largely due to targeted interventions. Following the 2005 Group of 8 (G8) agreement on multilateral debt relief, Rwanda's external debt sustainability is expected to improve significantly. Nonetheless, Rwanda's high aid dependency remains a concern. There has also been little progress made in increasing exports, and continuous electricity shortages and high oil prices imply major challenges for future economic development. While significant progress has been made in terms of internal and external political reconciliation, regional instability remains a threat.

Economic recovery is reflected in improvements in social indicators but poverty remains widespread.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

Following Rwanda's exceptionally low economic performance in 2003, mostly due to unfavourable weather conditions, real GDP growth recovered from 0.9 per cent in 2003 to 4 per cent in 2004 thanks to robust growth in manufacturing, transport, construction and communications. Agricultural growth in 2004 was once again negative in real terms due to continuing unfavourable weather conditions. Adverse weather conditions also hampered the harvest at the beginning of 2005, but since then, weather conditions have improved, and real GDP was estimated to grow once again at 4 per cent in 2005, with moderate growth accelerations of 4.2 per cent and 4.6 per cent in 2006 and 2007, respectively. Given the agricultural contraction in real terms in 2004, the share of agriculture in GDP decreased to 35.3 per cent, the share of industry in GDP increased to 14.2 per cent, while the share of the service sector in GDP increased to 27.8 per cent[1].

More than 90 per cent of Rwanda's population of 8.6 million rely on subsistence agriculture. Based on current population projections, the present urban population of close to 2 million is expected to more than double within the next ten years, while the rural population of close to 7 million is projected to decrease slowly. Population growth and increased urbanisation will continue to pose a challenge to Rwanda's food security, which – compared to 2003 – nonetheless improved in 2004 and 2005, partly thanks to Rwanda's introduction of the New Rice for Africa (NERICA) initiative, which has increased the country's rice self-sufficiency to 65 per cent. In 2004, about 600 000 people experienced food insecurity at some point in the year and required food aid, which amounted to 30 000 metric tonnes.

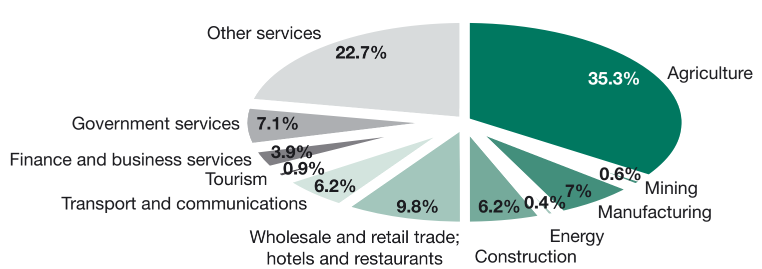
Rwanda's agricultural-sector strategy is based on transforming agriculture and raising rural incomes by encouraging the use of modern inputs in the production of priority crops. The persistence of low yields, however, indicates that fertilisers remain seriously under-used. The production of food crops (including bananas, roots and tubers) partly recovered in 2004, with a further positive outlook for the medium term as the government's efforts *i)* to promote the use of improved seeds, *ii)* to increase productivity and *iii)* to expand cultivated areas are slowly bearing fruit.

In real terms, the industrial sector grew by 5.5 per cent in 2004, mainly thanks to the strength of manufacturing, which increased by 6.3 per cent. The service sector grew at a rate of 7.1 per cent in 2004 on the strength of transport and communications, growing at 11.6 per cent, and the finance, insurance, real-estate and business sub-sectors, growing at 11 per cent. On the other hand, tourism and government services nearly stagnated.

The increased growth in several economic sectors mentioned above stimulated an increase in the growth of private consumption in 2004 and 2005, but there was little growth in private investment. The balance on traded goods and non-factor services measured at constant prices improved in 2004 but showed little change in 2005, thus stimulating growth in 2004 but having little effect on demand in 2005. Meanwhile, the fiscal stance was expansionary in 2003 and 2004 but became restrictive in 2005.

Compared with 2003, overall consumption increased by 2.5 per cent in real terms in 2004 owing to a strong increase in private-sector consumption, while public consumption contracted, even in nominal terms. Thus, the share of consumption in GDP

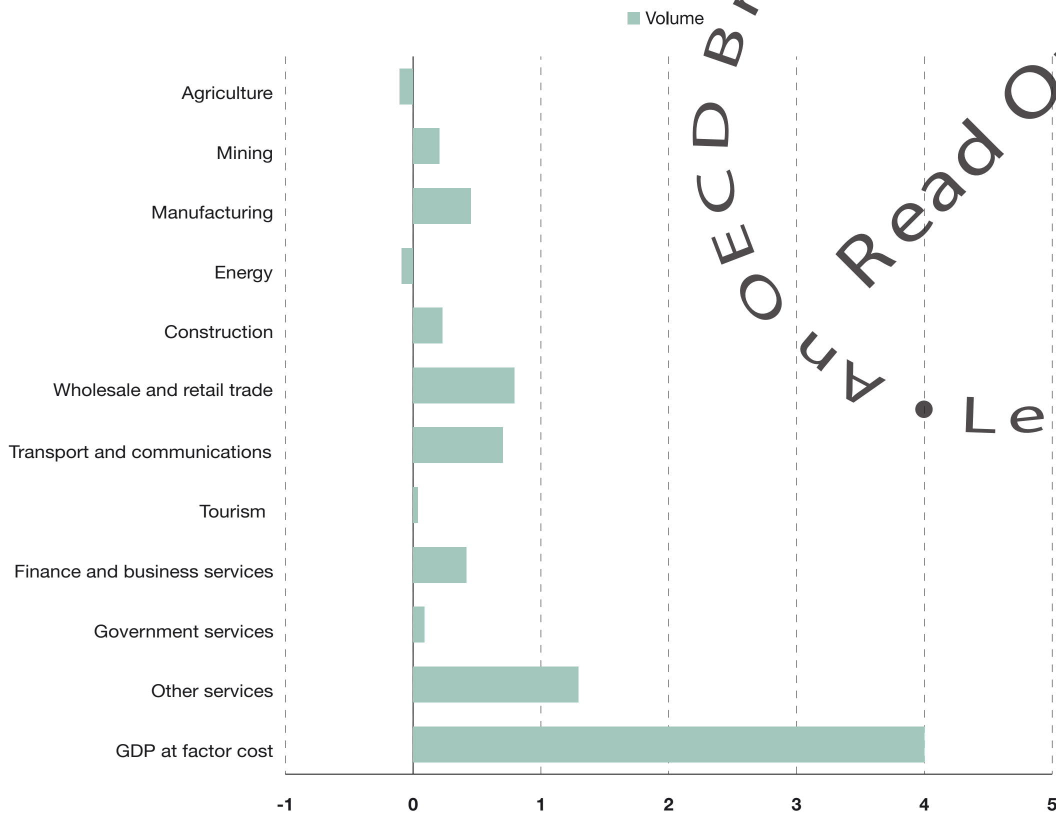
Figure 2 - **GDP by Sector in 2004** (percentage)



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

1. Due to recent changes in methodology, a total of 22.7 per cent of GDP cannot be properly allocated to sectoral shares of GDP.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

decreased to 97.6 per cent in 2004, though it was estimated to increase to 99.2 per cent in 2005 and projected to once again decrease after that. The share of total domestic investment increased from 18.4 per cent of GDP in 2003 to 20.5 per cent in 2004, reflecting a more than 50 per cent increase in public investment, partially offset by a small contraction of private investment in real terms. The share of public investment in GDP was estimated to increase further in 2005, while the share of private investment in GDP was estimated to decrease further in 2005. Hence, the overall composition of expenditures has shifted considerably towards private and public investment and is projected to shift further in 2006 and 2007.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**13.8**	**16.9**	**18.4**	**20.5**	**20.6**	**22.0**	**23.1**
Public	8.3	4.9	5.6	8.5	8.9	10.1	10.6
Private	5.6	12.0	12.8	12.0	11.7	11.9	12.5
Consumption	**104.1**	**100.0**	**100.8**	**97.6**	**99.2**	**98.2**	**96.8**
Public	9.6	11.8	15.1	12.9	13.8	14.1	13.9
Private	94.5	88.1	85.7	84.7	85.3	84.1	83.0
External sector	**-17.9**	**-16.9**	**-19.3**	**-18.1**	**-19.8**	**-20.2**	**-19.9**
Exports	7.8	7.7	8.3	10.3	9.3	9.4	9.3
Imports	-25.7	-24.5	-27.6	-28.4	-29.1	-29.6	-29.2

Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Macroeconomic Policies

Fiscal Policy

Rwanda's large development needs continue to be reflected in an excess of government expenditures over revenues, mostly financed by a large inflow of aid, which is provided now mainly in the form of grants. For the years 2001 to 2004, 39 per cent of Rwanda's ordinary budget and 78 per cent of its development budget were financed by foreign aid. The share of total government expenditures in GDP increased from 24.1 per cent in 2003 to 26.1 per cent in 2004 and was estimated to increase to 26.3 per cent in 2005. The 2004 increase in total government expenditure was due for a sharp increase in the share of capital expenditures, which increased from 5.6 per cent of GDP in 2003 to 8.5 per cent in 2004, while the share of current expenditures decreased from 18 per cent in 2003 to 15.9 per cent in 2004. For 2005, the shares of both capital and current expenditures in GDP were estimated to increase moderately.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**17.2**	**19.4**	**21.6**	**25.9**	**25.7**	**25.9**	**25.0**
Tax revenue	9.8	11.5	12.7	12.8	12.9	13.0	13.2
Grants	6.8	7.2	8.1	12.0	11.7	11.9	10.8
Total expenditure and net lending[a]	**19.6**	**21.3**	**24.1**	**26.1**	**26.3**	**27.1**	**27.1**
Current expenditure	11.5	16.3	18.0	15.9	17.2	16.9	16.4
Excluding interest	*10.2*	*15.3*	*16.8*	*14.8*	*15.9*	*16.2*	*16.0*
Wages and salaries	5.1	4.9	4.9	4.6	4.5	4.5	4.4
Interest	1.2	1.0	1.2	1.1	1.3	0.8	0.4
Capital expenditure	8.3	4.9	5.6	8.5	8.9	10.1	10.6
Primary balance	**-1.2**	**-0.9**	**-1.3**	**0.9**	**0.8**	**-0.4**	**-1.6**
Overall balance	**-2.5**	**-1.9**	**-2.5**	**-0.2**	**-0.5**	**-1.1**	**-2.0**

a. Only major items are reported.
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Within current expenditures, the shares of defence and security expenditures continue to decrease from a high of 3.3 per cent of GDP in 2001 to 2.3 per cent of GDP in 2004 and were projected to decline slightly further in 2005. The share of the wage bill in GDP also decreased from 4.9 per cent in 2003 to 4.6 per cent in 2004 and was estimated to decrease further in 2005. The 2004 decrease in the share of current expenditures was mainly due to a drastic cut in exceptional expenditures from 4.1 per cent of GDP in 2003 to 2.3 per cent of GDP in 2004[2].

The share of total government revenues (excluding grants) in GDP increased from 13.5 per cent in 2003 to 13.8 per cent in 2004 and was programmed to reach 14.6 per cent in 2005. The increase was supported by increased tax revenues resulting from a number of reforms, including broadening in coverage of the value-added tax and increasing its rate from 15 per cent to 18 per cent in July 2002, and from the re-organisation of Rwanda's tax administration. Furthermore, the government has further intensified the systematic collection of profit remittances and cumulative arrears from public enterprises as well as the service payments on debt on-lent to other enterprises.

The overall budget deficit, excluding grants, increased significantly in 2004, reaching 12.2 per cent of GDP, nearly two percentage points higher than in 2003. The share of the overall budget deficit in GDP,

2. Exceptional expenditures were introduced in 1998 to cover spending on assistance to victims of the genocide, the demobilisation and reintegration of soldiers, civil-service reform, education assistance to returning refugees and the establishment of governance institutions. It is projected that these exceptional expenditures will be reduced to about 1 per cent of GDP by 2007.

excluding grants, was increased in 2005 and is expected to increase further in 2006, before decreasing in 2007. The overall deficit including grants, however, amounted to only 0.2 per cent of GDP in 2004 (down from 2.3 per cent of GDP in 2003), and 0.5 per cent of GDP in 2005.

Monetary Policy

Throughout the last ten years, Rwanda adopted far-reaching reforms to make monetary policy more effective, including the rehabilitation of the National Bank of Rwanda (NBR, Rwanda's central bank), the adoption of a new central-bank law and the introduction of indirect monetary policy instruments. The main aim of Rwanda's monetary policy is to reduce relatively high inflation rates by conducting a prudent monetary policy. Nevertheless, monetary aggregates grew strongly during 2003 and 2004 due to a higher-than-anticipated financing of the budget deficit by the banking sector, and an increase in bank lending to public enterprises and investment projects. Broad money (M2) increased by 15.2 per cent during 2003 and by 12.1 per cent during 2004, which, together with low agricultural output and increasing oil prices, resulted in relatively high inflation rates of 7.7 per cent in 2003 and 10.2 per cent in 2004. While broad money continued to grow fast at the beginning of the year, the NBR has taken actions to reduce inflation by reducing the excess reserves of the banking sector and monitoring credit growth in the private sector. It was estimated that these actions, together with increased food production, would bring Rwanda's inflation rate down to about 6 per cent by the end of 2005. The NBR has targeted a lower rate of inflation of about 4 per cent for 2006 and 2007.

Since 1995, Rwanda has moved towards increasingly market-determined interest rates and exchange rates. Weekly foreign exchange auctions were introduced in January 2001, whereby the NBR offers a predetermined amount of foreign exchange on a marginal price basis and intervenes occasionally to smooth out disturbances. Nonetheless, the fragile health of some commercial banks restricted their participation in the inter-bank, securities and foreign-exchange markets. The government has therefore taken actions to improve the performance of the banking sector. It sold its majority shares in the Commercial Bank of Rwanda (BCR) to the United Kingdom (UK)-based Actis Group and those in the Continental African Bank of Rwanda (BACAR) to the Kenya-based Fina Bank. Starting in May 2005, the NBR allowed banks to lend in foreign exchange to exporters. The government has also sought to enhance the effectiveness of the NBR and continues with its efforts to bring commercial banks into compliance with prudential regulations. For example, in May 2005, it suspended the chairman of a bank that had continued to breach prudential regulations. While the level of official reserves fell from the equivalent of six months of imports in 2002 to five months of imports in 2003 due to a drought-related increase in imports and decrease in exports, as well as to delays in disbursement in budgetary assistance by various donors, it slowly improved through 2004 and reached nearly six months of imports at the end of June 2005.

External Position

Rwanda's relatively open trade regime exposes the country to considerable fluctuations in world prices of imports and exports. Largely due to increases in oil prices, Rwanda's imports (expressed in $) grew by 4 per cent in 2003, 12.5 per cent in 2004 and an estimated 33.3 per cent in 2005 as a result of increased dependence on thermal energy. In terms of GDP shares, imports of goods increased to 14.9 per cent in 2004 and an estimated 15.8 per cent in 2005. Meanwhile exports (expressed in dollars) contracted by 6.3 per cent in 2003. They then increased by more than 50 per cent in 2004 but were estimated to grow by only 2.1 per cent in 2005. In terms of GDP shares, exports increased from 3.7 per cent in 2003 to 5.3 per cent in 2004 before decreasing to an estimated 5.1 per cent in 2005. Hence, while the current-account deficit decreased significantly from 2003 to 2004, it was estimated to increase in 2005 to 22 per cent of GDP if excluding official transfers and to 9 per cent of GDP if including official transfers. The situation is not expected to improve significantly within the next few years. Rwanda has doubled its net inflows of foreign direct investment (FDI) from 1.5 per cent of gross fixed capital formation (GFCF) in 2003 to 3 per cent of GFCF in 2004. FDI inflows to Rwanda, however, remain among the lowest in Africa.

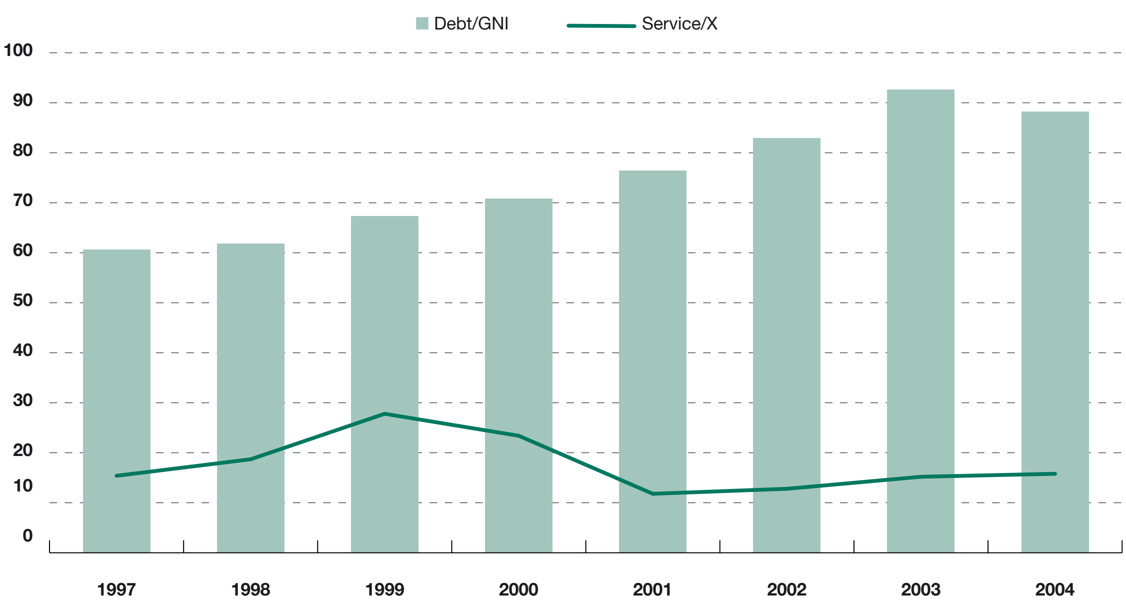
Rwanda's main exports are coffee, tea and coltan. World coffee prices continued to increase in 2004, stimulating an increase in coffee production. Thus, the export volume of coffee, which is Rwanda's main cash crop, increased by more than 80 per cent from 2003 to 2004. At the same time, Rwandan coffee farmers continue to shift their production from low- to high-quality coffee in order to achieve premium prices. The export volume of tea, which is Rwanda's second most important cash crop, declined by about 9 per cent from 2003 to 2004, reflecting the fact that Rwandan tea prices increased only marginally in 2004, which motivated some farmers to shift to the production of coffee. Weather conditions were on balance favourable in 2005, but prices for tea and coffee stagnated, discouraging further expansion of production. Thus, export volumes for coffee and tea are estimated to remain broadly at 2004 levels. Due to the recovery of world prices in coltan in 2004, Rwanda was able to double its exports of coltan from 2003 to 2004. Given, however, that Rwandan coltan is usually not competitive in world markets due to Rwanda's high extraction costs, the medium-term outlook for Rwanda's coltan exports is not optimistic.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-10.0	-9.7	-10.7	-9.6	-10.7	-11.1	-10.8
Exports of goods (f.o.b.)	5.0	3.9	3.7	5.3	5.1	5.1	5.0
Imports of goods (f.o.b.)	-15.0	-13.6	-14.5	-14.9	-15.8	-16.2	-15.8
Services	-8.8	-7.2	-8.5	-8.5			
Factor income	-1.8	-1.1	-1.8	-1.9			
Current transfers	15.5	11.2	13.3	17.1			
Current account balance	**-5.0**	**-6.7**	**-7.8**	**-2.9**			

Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank.

Given the importance of export-led growth for Rwanda's economic future, it is vital for efforts to be stepped up in strengthening and implementing the country's international trade strategy. The strategy that had initially been developed in 2004 is currently being adjusted based on the results of a diagnostic study under the trade-related integrated framework. Actions have been taken to establish an export-processing zone (EPZ), and negotiations are in progress for Rwanda to join the East African Community (EAC) and the Southern African Development Community (SADC).

Rwanda reached its enhanced completion point under the Heavily Indebted Poor Country (HIPC) initiative in April 2005. Total debt relief under the Enhanced HIPC Initiative from all of Rwanda's creditors is estimated at $1.4 billion in nominal terms. This assistance is equivalent to a reduction in net present value (NPV) terms of $695.5 million. In the first ten years after reaching the completion point, Rwanda is expected to save approximately $48 million annually in debt-service costs. Given that close to 90 per cent of Rwanda's external debt is to multilateral creditors, the recently agreed 100 per cent debt cancellation on all debt owed to the African Development Fund (ADF), the International Development Association (IDA) and the International Monetary Fund (IMF) will significantly improve Rwanda's external-debt sustainability.

Structural Issues

Recent Developments

Rwanda has taken action to address the critical issue of sustainable rural development. A new land law that improves the land-tenure and property rights was approved by parliament in mid-2005 and signed into law in November 2005. The successful implementation of the law is tantamount to defining the land-tenure types that will exist in the future, which is essential for creating a more favourable investment climate for agricultural development. Specific training will be needed in a number of areas, including market transactions, mortgages, the legal elements of titling and registration, dispute resolution and land-use planning for the new law to generate maximum economic benefits. To ensure environmental sustainability of the rural development strategy, the government created the Rwanda Environmental Management Agency (REMA), which implements the nation's policy for environmental protection, giving priority to developing an information system and strengthening institutional arrangements for environmental management.

In an effort to enhance effectiveness across all public-service agencies, Rwanda has continued to implement the public-service reform it began in 2003. The strategy clarifies broad functional requirements and provides a strong framework for identifying needs, budgeting, managing and evaluating capacity-building programmes. The public-sector capacity-building programme is an integral part of the reform programme. Nonetheless, it is the private sector that is regarded as the engine for Rwanda's economic growth, and the government is committed to creating an enabling environment for its development. Strategic measures undertaken include a "one-stop shop" for investors, the refinement of the investment code, restructuring of the centre for support of small and medium-sized enterprises *Centre d'Appui aux Petites et Moyennes Entreprises* (CAPMER), the institution of an Arbitration Centre dealing with commercial disputes, the establishment of a Commercial Chamber, the drafting of a new Accounting Law and the establishment of three commercial courts. Final steps are also underway for the institution of a National Accounting Commission and Regulation Agency for the profession. The Rwanda Utilities Regulatory Agency (RURA) as well as the National Bureau of Standards are fully operational.

Nonetheless, Rwanda's business environment faces severe constraints related to a lack of human capital and to structural bottlenecks, especially in terms of high transport costs and energy shortages. Based on the World Bank report *Doing Business in 2006: Creating Jobs,* Rwanda ranks 139 out of a total 155 countries covered. Of the 36 sub-Saharan African countries covered, Rwanda ranks 22. Of the ten areas covered in the report, Rwanda's main problem areas, contributing to the relatively low ranking, are the heavy burdens on business related to getting credit and trading across borders, and the closing of failed businesses.

Rwanda enacted a Privatisation and Public Investment Law in 1996. This law gave the government powers to liquidate, restructure and divest, partially or wholly, any public enterprise that was classified as non-performing. Privatisation of public enterprises took effect in 1998, with a total of 90 public enterprises earmarked for privatisation. At the end of October 2005, 53 enterprises had been privatised. At that time, the latest privatisation was that of the telecommunications company RwandaTel. Seven enterprises were in the final stages of being privatised, another seven had been liquidated and 23 were yet to be privatised (including the mining company Redemi, the printing and stationary company Imprisco, and the transport company Onatracom). While privatisations have been carried out across all sectors, current efforts concentrate on tourism. In an effort to promote tourism in Rwanda, a number of formerly state-owned hotels, including Hotel Diplomate (now Intercontinental Hotel), Hotel Izuba (now Kivu Sun Hotel) and Hotel Akagera, have been renovated and either privatised or put under private management.

The key focus areas of Rwanda's strategy to improve the country's infrastructure are water, energy and transport infrastructure. The government is undertaking specific projects to increase the supply of clean water in urban areas. The water-sector strategy aims at increasing the supply of this vital public utility and access to it. Recent progress includes a draft law on water-resource protection as well as the establishment of a geographic information management system (GIS) for the water sector. The water supply system, however, still requires extensive upgrading and rehabilitation in order to be consistent with the government's long-term objective of increasing the current access rate to drinking water of nearly 60 per cent to 85 per cent in 2015. The government has started to contract private firms to ensure the long-term sustainability of the rural water-supply systems while strengthening the decentralisation of water sources management. The Urban Water Supply and Sanitation (UWSS) programme will increase urban coverage from 73 per cent to 78 per cent and is anticipated to reduce leakage from 43 per cent to 23 per cent by 2007. Another programme aimed at increasing sanitation and hygiene education in schools and at home has also been initiated.

In the energy sector, the chronic shortage of electricity was aggravated in 2004 and 2005 by sharply increasing oil prices. The government has undertaken measures to improve rural electrification through the development of micro-plants and/or the extension of the distribution network, including measures to facilitate the use of solar energy. There is recognition that the long-term solution to the chronic shortages is the increased production of electricity and the exploitation of new and renewable sources of energy. Meanwhile, in the short to medium term, Rwanda still depends on imports of energy and fuel at high prices. Although the current energy crisis was partially addressed through the purchase of generators in 2004, the purchase and storage of the fuel needed to run these generators will have continuing implications for the future. This is also expected to increase the cost of electricity, which will have implications for the rural-electrification policy. It is thus envisaged to subsidise a "lifeline" tariff for low-use customers. Wood energy represents approximately 94 per cent of Rwanda's energy sources. It is the most accessible resource for the majority of the population, whose purchasing power is still very low. Negotiations with private companies on the extraction of methane gas are in the final stages, and production of electricity and related gas products is expected to begin by 2006. In March 2005, the government entered into a joint venture with a foreign consortium to exploit the considerable methane-gas reserves of Lake Kivu.

Transport Infrastructure

Landlocked and covered by a hilly terrain, Rwanda's transport infrastructure development is more challenging than that of most African countries, both for domestic and international links, especially since the 1994 war and genocide devastated the country's transport infrastructure. Considering the four modes of transport – road, rail, air and water – Rwanda is heavily reliant on road transport. Rail is totally non-existent, while water and air modes are just marginally utilised. During the last ten years, Rwanda has undertaken tremendous policy reforms and investments that have laid a strong foundation to improve its transport infrastructure. While mainly donor-funded and concentrating on road construction and repairs, transport networks have improved national service delivery in the country and improved internal market access.

Rwanda's road transport is made up of a 14 000 kilometre-long road network, servicing some 34 500 vehicles at an average of 2.5 cars per km and an average road density of 1.7 km/1 000 inhabitants. While only 19 per cent of the classified network is paved, road transport in Rwanda accounts for 90 per cent of the entire transport system. Although a basic network of roads exists, especially between Kigali and other major cities, there are considerable gaps in rural areas, which hamper agricultural growth. For its road surface connection with the external world, Rwanda uses two corridors: the so-called Northern and Central Corridors. The Northern Corridor links Rwanda to the Port of Mombasa (Kenya) through Uganda and entails a distance of 1 800 km. The Central Corridor links Rwanda to the Port of Dar es Salaam (Tanzania), across a distance of 1 400 km. The state of both corridors has deteriorated in the last few years due to insufficient maintenance relative to the increasing traffic volume, raising already high transport costs for Rwanda. In recent years, Rwanda's interest in the Central Corridor has increased as a result of improved services delivery at the port of Dar es Salaam. It is in this regard that Rwanda plans to develop a container terminal at the Isaka railway junction in Tanzania, 450 km from Kigali. In the long run, however, a more cost-effective access to the Tanzanian coast is envisaged through a railway extension.

Air transport in Rwanda plays the dual role of enhancing economic integration in regional and global markets and of promoting tourism. Air-transport infrastructure comprises one international airport, which serves the capital, Kigali, and five airfields, three of which are fully operational. The Kigali International Airport has a passenger capacity of up to 500 000 annually but currently handles an average of only 140 000. It is served by five international airlines as well as one national carrier. Owing to limited competition and a small market, the cost of Rwanda's air transport is higher than international averages. With a view to improve the country's air services, Rwanda has just completed an overhaul of the Kigali International Airport with a repaved and extended runway, a new taxiway, an increased aircraft parking area, new navigational aids, fire-fighting equipment and a refurbished lighting system. Plans to redevelop the Kamembe Airport in the south-west of the country are also underway, to make it the second international airport of the country. Within the framework of a new vision of the fast growing City of Kigali, the long-term plans include the construction of an alternative and larger international airport in Bugesera, some 50 km away from Kigali.

Rwanda is endowed with several lakes and rivers, but only Lake Kivu is fully navigable by both passengers and goods. It covers a distance of 120 km and serves three towns: Gisenyi to the north, Kibuye to the centre and Cyangungu to the south. Following the improved security and promise of peace in the Democratic Republic of Congo (DRC), water transport on Lake Kivu has sparked some interest, prompting the government to initiate a programme to promote and encourage private-sector investment in its development. The main challenge to this strategy, however, is an absence of a boatyard for boat, tug, and barge maintenance and repair. A study on the economic viability of such an investment ought to be seen as a prerequisite to exploiting the full potential of water transport on Lake Kivu.

The entire transport infrastructure in the country is state-owned, including the airports and airfields. The government's decentralisation policy, however, has devolved the responsibility for development and maintenance of local unpaved and communal roads to the local authorities. On the other hand, the inter-provincial and city roads are maintained by private contractors through a road maintenance fund, financed from vehicle registration fees, fuel-tax levies and axle-load fines. A road-maintenance agency was proposed and is due to commence operations in 2006. Rwanda's transport policy rests with the Ministry of Infrastructure, which is charged with two goals: *i)* to enhance the country's integration into the regional economy ; and *ii)* to improve the availability and quality of local transport infrastructure. Numerous initiatives are underway, including attempts to seek alternatives to the dominant road transport. Rwanda is active in regional New Partnership for Africa's Development (NEPAD) programmes, which provides a framework for the country's regional integration strategy. Although the emphasis of the road-transport strategy is on the conservation of existing roads, the present state of the Rwandan road network requires extension. In this respect, a variety of technical studies for the construction of new roads has been undertaken. At the same time, adequate financing for the construction and maintenance of feeder and communal roads needs to be ensured in the decentralisation process.

Looking back to the transport-sector situation as it was at the end of 1994, Rwanda has done remarkably well thanks to the generous support of its development partners. Nonetheless, Rwanda has started to search for alternative financing sources for its medium- and long-term infrastructure investments. One such alternative is the promotion and encouragement of private-sector investment in transport infrastructure. The other is an

Rwanda's Labour Intensive Local Development Programme (PDL HIMO)[3]

In November 2003, the President of Rwanda launched a new programme with the objective to contribute to poverty reduction by carrying out employment-intensive and income-generating investments using local resources. The HIMO approach: *i)* creates jobs with a view to reduce rampant unemployment; *ii)* provides infrastructure that is urgently needed for rural development; *iii)* protects and conserves the environment; *iv)* achieves the demobilisation and reintegration of soldiers and; *v)* increases revenues and purchasing power within the rural areas. The approach appears to be a sure way to increase the demand for non-agricultural goods and services, a demand that in itself can induce the emergence of non-agricultural activities and the creation of non-primary activities in the rural areas.

HIMO initiatives are equally expected to contribute to the improvement of the incomes of women, young people and the poor, and to stimulate the spirit of saving and the capacity to invest in rural areas. Hence, all HIMO activities are complemented by significant training and savings programmes. The accumulated savings of HIMO employees can then be used as start-up capital for income-generating investments following the completion of a HIMO project. The HIMO programme is projected to provide 322 000 direct jobs and 564 000 induced jobs during the five-year period of the programme. The typical wage of HIMO-project employees amounts to RWF400 (Rwanda francs, about $0.80) per day. The projected total cost of the PDL-HIMO programme is estimated at approximately $220 million, about 90 per cent of which is expected to be provided by donors through Rwanda's Common Development Fund (CDF).

With regard to the provision of transport infrastructure, HIMO aims at: the building of bridges; the rehabilitation, improvement and maintenance of rural roads and; the pavement of streets in urban/suburban impoverished areas. The first HIMO infrastructure project assisted one of the poorest districts of Rwanda (Mudasomwa) by fully rehabilitating a 12.5 km-long rural trail connecting three rural centres (Gasarenda, Mushishito and Gakoma). Work for this project began on 26 November 2004 and was completed on 14 October 2005. The project employed about 600 workers. The total costs of the project amounted to about $120 000 (RWF61 million).

3. PDL HIMO stands for *Programme de développement local a haute intensité de main-d'œuvre.*

ingenious initiative to stimulate local labour-intensive programmes to develop communal transport roads and bridges through Rwanda's Labour Intensive Local Development Programme (PDL-HIMO); see box. Nonetheless, the main responsibility for at least co-ordinating Rwanda's transport infrastructure will remain with the central government.

Political and Social Context

Rwanda is a relatively safe country in a turbulent vicinity that must constantly weigh its need for internal and external security against the need for the democratisation and decentralisation that the country requires to achieve sustainable development. Regarding regional peace, there has been continued progress following the signature in August 2004 of an agreement between the DRC, Rwanda and Uganda to pacify the region with the disarmament of all armed groups operating in the three countries. On 20 November 2004, African leaders from eleven Great Lakes countries also signed the broader Dar es Salaam Declaration, a United Nations (UN)-backed peace framework for the Great Lakes region. Nevertheless, the Rwandan Interahamwe militia operating in the DRC and accused of participating in the 1994 genocide have maintained unabated presence despite the agreement to disarm. Looking forward, improving regional stability in the Great Lakes region will be a key factor for achieving the country's development potential.

Rwanda has made considerable progress towards increasing the participation of its people in public life. Supporting policies and institutions have been established, including a decentralisation policy and the adoption of a new Constitution in May 2003. The subsequent presidential and first-ever multi-party parliamentary elections saw the election of President Kagame and an unprecedented 49 per cent of women legislators. Before the adoption of the new constitution, the government released about 25 200 detainees, mostly persons who had confessed to committing genocide, an action in the spirit of appeasement and national reconciliation. Another group of 30 000 persons who had mainly confessed their role in the genocide were also released in 2005, just as the transitional justice system known as *Gacaca* was beginning its activities nation wide after two years of pilot trials.

Despite achievements in electing women in decision-making positions, gender gaps remain important in Rwanda, all the more so in rural areas. The Human Development Report (HDR) 2005 of the United Nations Development Programme (UNDP) ranked Rwanda 122 out of 140 countries in the gender-related development index (GDI). Female-earned income amounts to 62 per cent of male-earned income. The authorities are very actively promoting gender equality and the empowerment of women, including through the institution of a Ministry of Gender and Women in Development, which is mandated to spearhead the elimination of gender imbalances in all sectors. In addition, grassroots-based National Women Councils were recently set up. A law on succession and matrimonial regimes was enacted to improve the rights of women with regard to property rights. Besides ratifying the international convention against all forms of discrimination, gender-awareness campaigns have been undertaken throughout the country. A National Gender Policy has made gender empowerment and inclusiveness a constitutional requirement. Many public-sector institutions have started to review their structures, behaviour and human capital to make them conform to the gender-related provisions of the Constitution.

Rwanda is an active participant in NEPAD programmes and, together with Ghana, is one of the first two countries to undergo external review under the African Peer Review Mechanism. A draft report to underpin the review was presented at the Forum of Heads of State and Government meeting in Abuja, Nigeria in June 2005. The actual peer review was expected to be undertaken in January 2006. The government continued throughout 2005 to promote financial accountability among its officials, while also exercising experimental fiscal initiatives to reduce public spending. For example, a new policy was passed in early 2005 to abolish all government vehicle fleets. A number of outsourcing measures to private businesses have also been introduced for some government services. The decentralisation policy was also revised in 2005, reducing the number of provinces from 12 to 5 and that of districts from 106 to 30. Sub-districts, which form the primary local development anchor, have also been reduced from more than 1 000 to about 400. All this is expected to improve fiscal responsibility and liberate budgetary resources for economic development. Fiscal decentralisation to local government, however, has been relatively disappointing; only slow progress has been made towards meeting the target of 10 per cent of net domestic income devoted to the CDF, which is one of the principal sources of revenue for local government.

Rwanda's first Poverty Reduction Strategy Paper (PRSP), which was completed in June 2002 after extensive consultations with civil society, is based on six strategic pillars: *i)* rural development and agricultural transformation, *ii)* human development, *iii)* economic infrastructure, *iv)* good governance, *v)* private-sector development and *vi)* institutional capacity building. In the future, it will be important to make further progress in monitoring and reporting on progress within sectors, and in requiring improved evidence-based analyses to support prioritisation of development goals. Detailed analysis of poverty reduction progress carried out in consultation with other partners will, in fact, be required to underpin the new PRSP, which is in its final stages of formulation. Nonetheless, poverty remains high in Rwanda, even as the ongoing household living-conditions survey is expected to register some improvement compared with the latest country-wide data of 2000. In the UNDP HDR 2005, Rwanda ranks 159 out of 177 countries in terms of human development, even though Rwanda's Human Development Index (HDI) has improved significantly from a low 0.34 in 1995 to 0.45 in 2003.

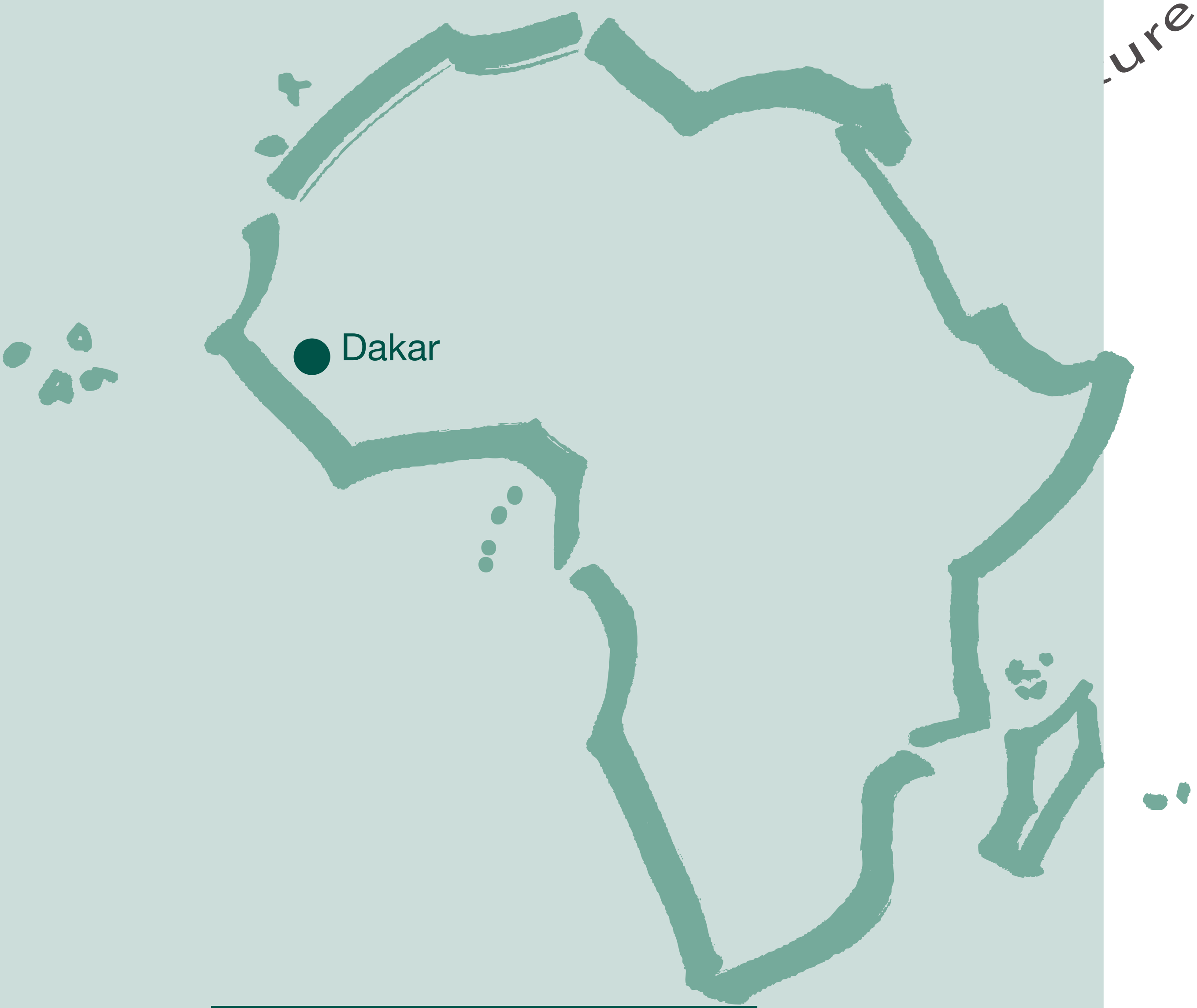
HIV/AIDS continues to take a heavy toll despite significant efforts – with the support of the donor community – to expand HIV/AIDS services throughout the country. As of the end of 2004, 48 service centres offered Voluntary Counselling and Testing (VCT) and 59 service centres offered Prevention of Mother to Child Transmission (PMTCT), an approximately 20 per cent increase since the end of 2003, with the number of VCT centres expected to increase further to 180 by the end of 2005. According to the Joint United Nations Programme on HIV/AIDS (UNAIDS) update of December 2005, Rwanda's epidemic appears to have stabilised at the national aggregate level (reporting an adult HIV prevalence rate of 5.1 per cent), but differing localised trends are visible, with HIV prevalence in pregnant women rising in some places, staying stable in others and decreasing in a few locations (such as Gikondo, a Kigali suburb). Overall, HIV prevalence is more than twice as high in urban areas (6.4 per cent median prevalence in 2003) as in rural areas (2.8 per cent), with Kigali by far the worst-affected despite some evidence of declining infection levels in 1998-2003 among pregnant women younger than 35 years of age. The prices of antiretroviral (ARV) drugs have been continuously reduced, and the number of people receiving ARV therapy rose from 8 700 in 2004 to more than 13 200 by June 2005 and to 17 500 by the end of the year. There are evident signs of progress as the preliminary November 2005 results of a Demographic and Health Survey Plus (DHS+) show a reduced national prevalence rate of 3 per cent among adults.

There are a number of important improvements in a variety of social indicators, notably in the area of education and health. While health indicators deteriorated sharply in the early 1990s, considerable progress has been made since 1995, though some indicators have not yet reached the levels that were already achieved in 1990. For example, while the under-five mortality rate stood at 141 per 1 000 live births in 1990, it rose sharply to 219 during the genocide and stood at 196 in 2000. By mid-2005, it had improved to 152. After the immunisation campaign was restarted in 1995, it reached a coverage of close to 70 per cent in 1997 then deteriorated to less than 50 per cent in 1999 due to the lack of supervision and monitoring. Alarmed by the sudden rise in reported cases of measles, a new campaign and improved monitoring has resulted in 2004-05 immunisation rates of 87 per cent. The immunisation coverage for Diphtheria, Pertussis and Tetanus (DPT3) has been the most successful in recent years, reaching close to 93 per cent in 2004. Thanks to the Rwanda Expanded Programme for Immunisation (EPI), the immunisation coverage for DPT3 was expected to reach 97 per cent in 2005. Malaria remains the major cause of children's mortality, followed by acute respiratory infections and diarrhoeal diseases. Malnutrition and micro-nutrient deficiencies also remain serious problems in Rwanda, even though the rate of severe malnutrition for children under five was reduced from 29 per cent in 1990 to about 24 per cent in 2000, and then it registered a steady improvement to 19.2 per cent by mid-2005.

With regard to progress made in the education sector, the net primary enrolment rate rose from 73.3 per cent in 2001 to 74.5 per cent in 2002, 80 per cent in 2003, 84 per cent in 2004 and 93.3 per cent in 2005, and the number of primary schools increased from 2 143 in 2001 to 2 191 in 2004. With regard to secondary education, enrolment ratios are also increasing and transition rates from primary to secondary education have shown encouraging improvements, rising from 43 per cent in 2002, to 54 per cent in 2003, to 57 per cent in 2004 and 60 per cent in 2005 (in both public and private schools). While the share of girls in primary education is on par with that of boys, the rate of girls enrolled in secondary schools is, at 48 per cent, slightly below parity. The quality of primary and secondary education remains poor, mainly due to a shortage of qualified teachers, a heavy curriculum and the lack of appropriate instructional material. While the proportion of qualified primary-school teachers has increased from 81 per cent in 2002 to 85 per cent in 2003 and to 87 per cent in 2004, the continued shortage of qualified teachers has led to large classes and a double-shift system. The qualitative problems are reflected in sizeable gaps between enrolment, attendance and completion rates. Drop-out rates were at 14.2 per cent and repetition rates at 32 per cent in 2003, then went down to 19 per cent in 2005. Beginning in 2003, Rwanda eliminated all fees on primary education. In the same year, it finalised the Education Sector Strategic Plan (ESSP) for 2003-08. The ESSP is a forward-looking, rolling development plan intended to make the education sector policy operational.

In tertiary education, the main recent developments include the passing of the Higher Education Bill and the establishment of the Students Financing Agency for Rwanda (SFAR), which are expected to improve governance of the tertiary-education sector whilst increasing private participation and allowing increased access for those from poor households. Complementing the six public higher-learning institutions, five private higher-learning institutions were opened since 2003, bringing the total number of private higher-learning institutions to nine. Most of the Youth Training Centres (for vocational training), however, are inadequately funded and need rehabilitation. The long-term education strategy stresses the priority of having one well-equipped and well-staffed technical school in each province and at least one vocational-training centre in each district.

Senegal

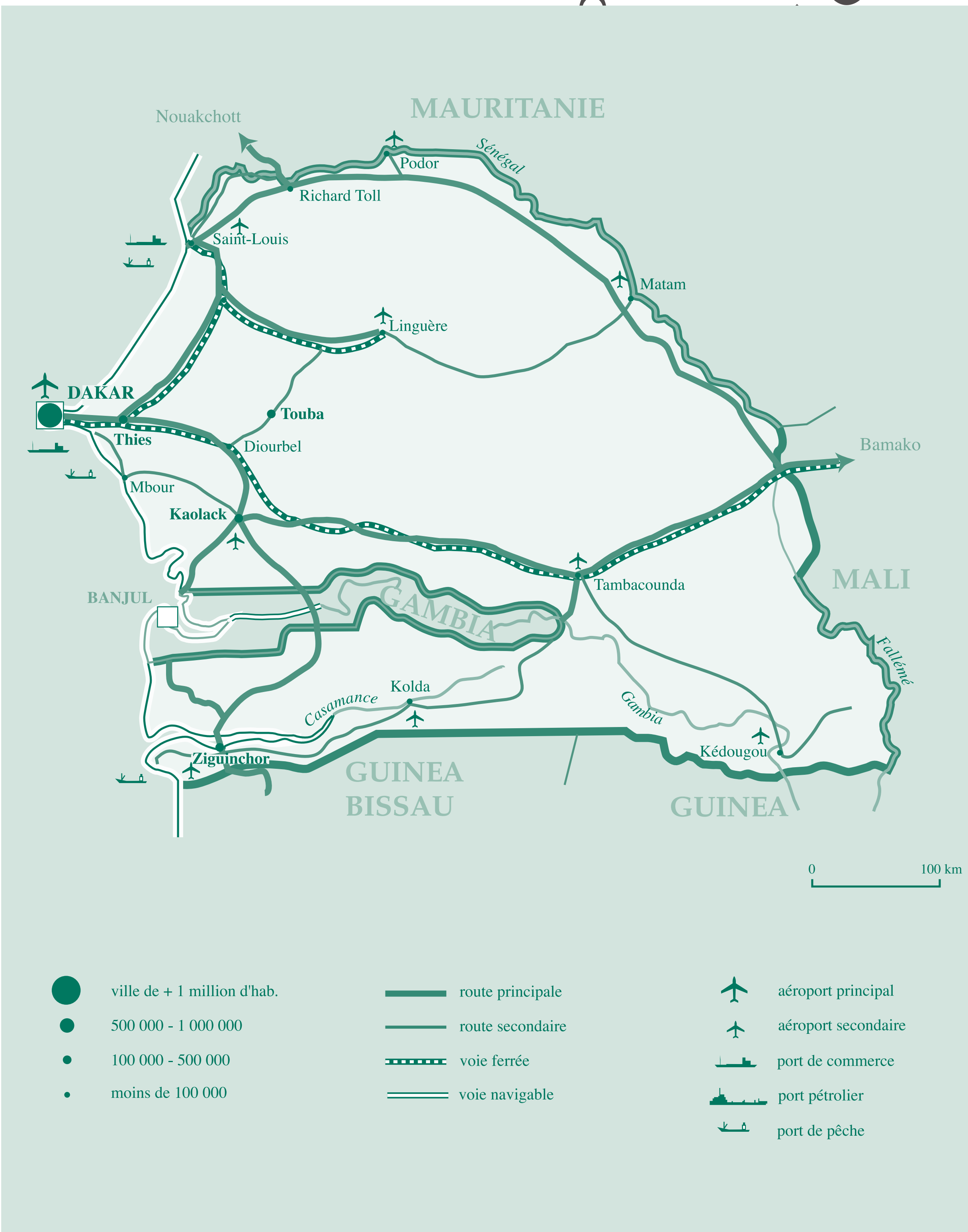


key figures

• Land area, thousands of km²	197
• Population, thousands (2005)	11 658
• GDP per capita, $ PPP valuation (2005)	1 745
• Life expectancy (2000-2005)	55.6
• Illiteracy rate (2005)	57.9

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/213610378718

Senegal



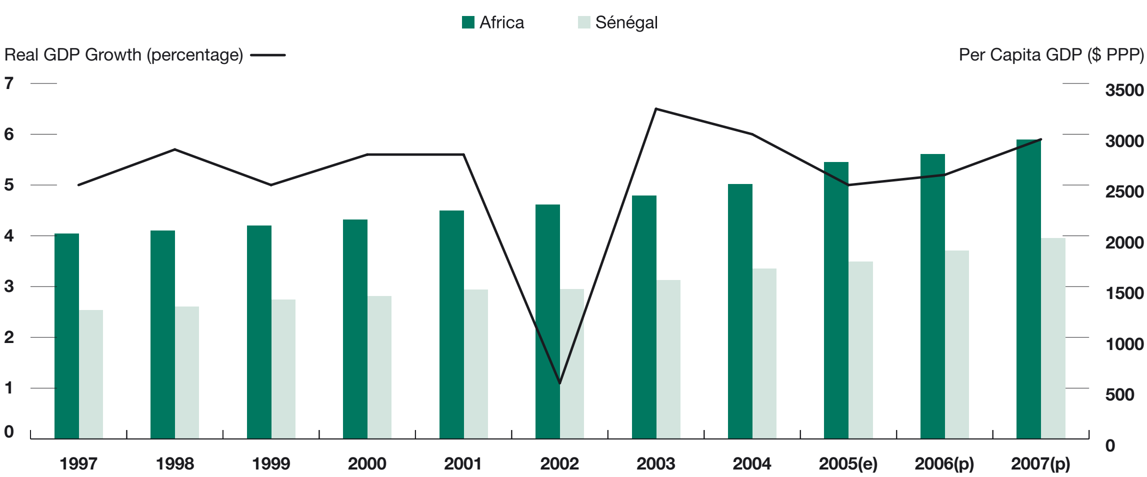
AFTER DECADES OF VERY AVERAGE economic growth, Senegal has recorded annual increases slightly above 5 per cent for several years now, largely due to macroeconomic policies and structural reforms. Linked to a generally calm transition of power following the democratic elections of 2000 and to ongoing institutional reforms, this relatively high growth makes the country an interesting case of socio-economic development in Sub-Saharan Africa.

Nevertheless, even with growth of 5 or 6 per cent per year, Senegal will remain among the "least developed" countries in 2015. This observation has stimulated the development of a new Accelerated Growth Strategy (AGS) to complement the Poverty Reduction Strategy Paper (PRSP), which is likely to become the key document for development policy in Senegal.

An ambitious strategy for accelerated growth promises dramatic improvements, but difficult political choices remain.

The AGS is still being developed, but an interim planning document has been produced, enabling commentary and analysis. The World Bank and the IMF (International Monetary Fund) have therefore been able to approve the general approach. Through dialogue with various economic actors, five economic "clusters" perceived as driving forces for faster and more diversified growth have been identified: *i)* agro-industries and food processing; *ii)* fisheries; *iii)* tourism, crafts, and cultural industries; *iv)* cotton, textiles, and clothing; and *v)* information and communication technologies (ICT), as well as teleservices. Before the AGS is put to the vote at the National Assembly in June 2006, technical groups will outline action plans for each cluster. They must address difficult questions, such as identifying which sub-sectors and which options to support in the large agricultural sector, or how to respond to the problem of depletion of fishery resources. The ability of the Senegalese government and of its private sector and civil society partners to resolve these questions, and other equally difficult questions, will indicate the strength of their commitment to economic reform.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and Direction de la prévision et de la statistique (DPS) data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

Since the devaluation and the extension of reforms in 1994, growth in Senegal has been nearly 5 per cent a year, with the exception of 2002, which was affected by an agricultural crisis. After two years of dynamic growth in 2003 and 2004 (6.5 and 6 per cent respectively), Senegal recorded growth of around 5 per cent in 2005. This slowdown is strongly linked to the rise in oil prices and its impact on the world economy. According to forecasts, the current reforms should facilitate growth of the order of 5.2 per cent in 2006 and 6 per cent in 2007.

The primary sector – which contributed 4.3 per cent to GDP growth in 2004 – continues to be an important source of income for the majority of Senegalese households. The relatively weak growth of the sector in 2004, especially in comparison with the 19.8 per cent recorded in 2003, is due mainly to external shocks (such as the acridian threat that affected particularly the maritime regions in the north of the country), but also to other unexpected climatic events that hampered agriculture. Cereal production dropped significantly in 2004, by 21 per cent, largely due to a migratory locust invasion, particularly in the areas of Louga, Thiès, Fatick and Diourbel. Despite a drop of 9 per cent, cotton production was on the whole satisfactory, particularly if the exceptional performance of 2003 (46 per cent higher than the average production of the five last years) is taken into account. Groundnut production reached a record 572 789 tonnes in 2004, representing a 30 per cent increase. This remarkable performance of the groundnut sector, as well as the sound results recorded in sesame production (+57 per cent) and manioc (+121 per cent) meant that agriculture grew by 6 per cent.

Livestock grew by 4 per cent in 2004, largely due to the policy of promoting local meat production. In the fisheries sector however, growth fell to 2.4 per cent (compared to 4.9 per cent in 2003), due to the reduction of catches in the inshore region of Thiès, one of the major fishing zones. In 2005, this sector is expected to experience growth estimated at 1.9 per cent, sustained by a 12 per cent increase in landings of local fishing (particularly in the regions of Louga, Ziguinchor, Saint-Louis, Dakar and Thiès) which has partly compensated for the decline in industrial fishing.

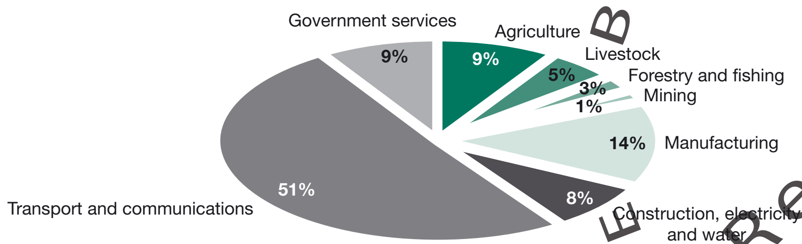
Overall, primary sector growth is estimated at 7.4 per cent in 2005. This figure is comprised of the following sectoral increases: +10 per cent agriculture; +5 per cent livestock; +3.2 per cent forestry; and +1.9 per cent fisheries[1]. Agricultural production in 2005 benefited from good rainfall and the absence of phytosanitary threats. The growth in agriculture is strongly linked to the exceptional 43 per cent rise in groundnut production, which reached 820 000 tonnes, according to estimates of the national statistics department, DPS (Direction de la prévision et de la statistique) and the DAPS (Direction de l'analyse, de la prévision et des statistiques) in November 2005. Cereal production rose by 113 per cent even though the prices of cereals in Senegal remain below those of other WAEMU (West African Economic and Monetary Union) countries. Although food processing and fisheries are the pillars of the new AGS, their growth is still below that of other agricultural sub-sectors.

In 2004, the industrial sector again accounted for 20 per cent of GDP. The manufacturing sub-sector is composed principally of processing activities of phosphates, groundnuts, and fishery products. Its growth of 5.6 per cent in 2004, compared with 6.4 per cent in 2003, was determined largely by international oil prices, which affected the Senegalese economy along with that of other WAEMU countries. On the whole, the secondary sector is characterised by high production-factor costs, the dependence of production on a limited number of products, weak investment, and a limited domestic market.

For several years, the industrial chemicals company ICS (Industries chimiques du Sénégal) has been in crisis. This is due to the impact on prices in euros of the appreciation of the euro against the dollar, to the high cost of inputs for developing phosphates and acid,

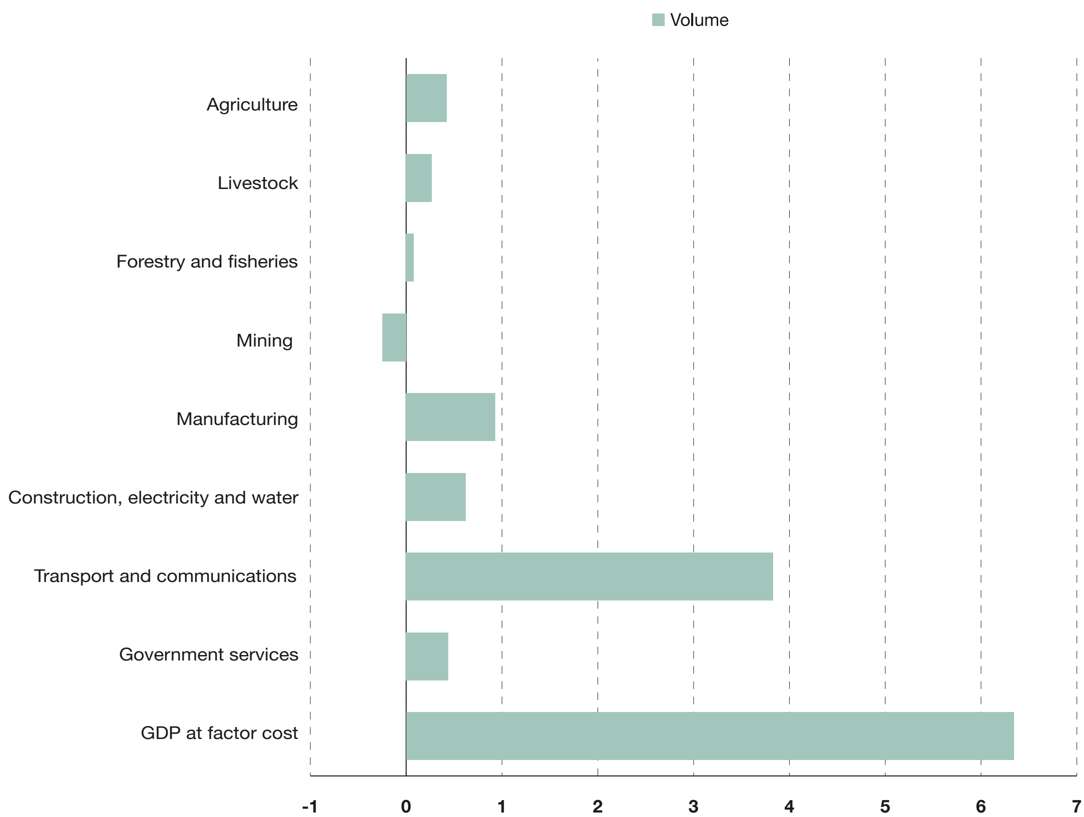
1. DPS estimates based on the first two quarters of the year.

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on DPS data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on DPS data.

and to the difficulty of transporting phosphate stocks by rail (see box). Nonetheless, manufacturing and construction upheld industrial-sector growth, with performances of 7 and 13 per cent respectively in 2004. These results are explained by public investment in basic infrastructure and by housing construction by households. Oil refining and food industries also contributed to growth. For 2005, growth in the industrial sector is expected to be considerably weaker than in 2004, at around 3 per cent. This slowdown is principally attributable to the high cost of oil, which had a direct impact on the oil refining and energy sub-sectors, but also a negative effect on other industrial activities.

Industries chimiques du Sénégal: Decline of the King of Senegalese Industry

The ICS (Industries chimiques du Sénégal) company – which produces phosphoric acid, phosphates and fertiliser – is the leading industrial enterprise of the country in terms of jobs, assets and turnover. Between the end of the 1990s and the start of the 2000s, ICS accounted for 6 per cent of the GDP of the secondary sector and 16 per cent of export value. Initially, in the 1970s, ICS was a wholly public company. Though the Senegalese government's share in the company subsequently fluctuated, since 1986, it has remained stable, at 47 per cent. Today, an Indian consortium led by IFFCO (Indian Farmers Fertiliser Co-operative) holds 26 per cent of the capital. IFFCO buys nearly all of ICS's annual production of phosphoric acid, and in so doing, meets around 30 per cent of annual demand in the Indian economy. ICS also exports fertiliser to West Africa, though this market remains relatively underexploited. For some time, international prices for phosphoric acid have remained low. This situation is further exacerbated by the rise of the euro – the majority of ICS's inputs are in euros – vis-à-vis the dollar, the nominal currency for its main products. According to IFFCO, ICS's total losses reached 55 billion CFA francs in 2004 and 45 billion CFA francs in 2005. With increasing indebtedness since 2001 reaching 230 billion CFA francs in 2004, ICS is under serious threat of bankruptcy. The government began negotiations with the Indian consortium in December 2005 aimed at encouraging it to increase its share in the capital. The State also announced in February 2006 that it would inject 10 billion CFA francs into the company to enable it to pay its creditors immediately. With ICS's debt largely held by Senegalese banks, its failure would seriously threaten the stability of the country's financial system.

While the tertiary sector suffered less from the rise in oil prices, sectoral growth should not exceed 5.3 per cent in 2005, compared with 7.7 per cent in 2004. The dynamism of the transport and telecommunications sub-sectors (13.3 per cent in 2004 and 10.4 per cent in 2005) explains this growth in part. Telecommunications have particularly benefited from the development of mobile phone services and the liberalisation of teleservices, one of the clusters identified by the new AGS. For 2005, growth of the priority sectors of health and education should be around 4 and 7 per cent respectively. Though the trade sector increased by 6.1 per cent in 2004, it is expected to show only 4.6 per cent growth in 2005. This slowdown is largely attributable to the price of oil. The performance of tourism is perhaps disappointing, particularly given that the sector is among the five clusters of the AGS: although 434 825 tourists entered the country in 2004-05, compared with 413 763 in 2003-04, the occupancy rate fell from 40 to 34 per cent, and the duration of stay fell to 3.5 days in 2004-05 compared with 3.8 days in 2003-04. Nevertheless, significant measures have been adopted: the SAPCO (Société d'aménagement et de promotion des côtes et zones touristiques du Sénégal) will raise 30 billion CFA francs to develop three new tourist areas in Joal-Fadiouth, Mbodiène and Pointe Sarène; this project began in 2005. Nevertheless, the goal set by the government of 1.5 million tourists in 2010 could appear over-ambitious, given the deficiencies of the sector in terms of basic infrastructure and transport, and in the light of the competition from North Africa.

In 2004, total consumption and private consumption increased by 5.1 and 5 per cent respectively, compared with 7 per cent for private consumption in 2003. The growth of private consumption is primarily due to the increase in public-sector salaries, where a revision of salaries began at the end of October 2005 and will continue over a period of three years, resulting in a budgetary cost of 14 billion CFA francs. Private consumption was also boosted by the hiring of public-service employees under the plan to recruit 15 000 staff in the 2003-05 period. Public consumption grew by 5.3 per cent in 2004, compared with 0.5 per cent in 2003. Public investment remained highly dynamic in 2004, growing by 9 per cent, leading

Table 1 - Demand Composition (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**14.6**	**16.7**	**19.4**	**23.1**	**24.1**	**24.5**	**24.6**
Public	5.4	8.0	8.4	10.1	10.6	10.9	11.0
Private	9.2	8.8	11.0	13.0	13.5	13.6	13.6
Consumption	**92.0**	**93.0**	**92.8**	**90.3**	**91.0**	**90.5**	**90.3**
Public	15.0	11.2	10.6	10.4	10.8	10.8	10.7
Private	77.0	81.8	82.1	80.0	80.2	79.7	79.6
External sector	**-6.6**	**-9.8**	**-12.2**	**-13.4**	**-15.0**	**-15.1**	**-14.9**
Exports	28.9	30.5	28.8	27.8	27.8	27.7	26.4
Imports	-35.5	-40.2	-41.0	-41.2	-42.8	-42.7	-41.3

Note: National accounts were revised on the basis of the 1993 national accounting system, and were published in April 2003.
Source: DPS data; estimates (e) and projections (p) based on authors' calculations.

to a level of gross fixed capital formation of 23.1 per cent of GDP. Public investment should remain fairly high in 2005 due to extensive public works, and also due to investments in infrastructure linked to regional development. Moreover, the upcoming elections should encourage the authorities to invest even further. Private investment also remained dynamic, with a 6.1 per cent growth rate in 2004 that is expected to continue in 2005. Foreign trade, which is structurally negative, is hampered by the negative effects of poor export diversification and by the country's dependence on food and oil imports.

Macroeconomic Policies

Fiscal Policy

In 2004 — and this should remain true in 2005 — Senegal respected the three first-level convergence criteria of WAEMU, as well as three of the four second-level criteria. The basic budget balance was hence 0.6 per cent of GDP in 2004, and public debt as a ratio of GDP was 39.1 per cent. These indicators conform to the rates set by WAEMU, at 0 and 70 per cent respectively. Furthermore, in 2005, as in 2004, inflation is expected to remain below the 3 per cent ceiling set by WAEMU. The wage bill to tax revenue ratio was slightly below 30 per cent in 2004, that is, lower than the WAEMU criterion of 35 per cent. The ratio of domestically funded capital expenditure to tax revenue was 29.3 per cent in 2004 — in other words, it was well above the floor of 20 per cent fixed by WAEMU. Finally, the tax burden neared 18.3 per cent in 2005, which is slightly above the 17 per cent criterion. Only the criterion of the balance of current account excluding grants as a ratio of GDP, in showing a deficit of 8.3 per cent, failed to meet the limit set at 5 per cent.

The general situation of Senegalese public finances attests to satisfactory tax collection and cautious management of expenditure. The fiscal deficit reached 2 per cent of GDP in 2004, compared with 1.1 per cent in 2003; it is estimated at 3 per cent of GDP in 2005. Total revenue (excluding grants) rose by 8 per cent in 2004. It reached 442 billion CFA francs in the first six months of 2005, thus rising by 12.5 per cent over the same period of 2004. For the year 2005, total revenue is expected to be 863.2 billion CFA francs. This rise follows the 9 per cent increase in tax revenue from 677 billion CFA francs in 2003 to 738.5 billion CFA francs in 2004. Direct and indirect taxes increased in 2004, by 12.3 and 7.4 per cent respectively, compared with 2003. In the first six months of 2005 compared with the same period of 2004, they increased respectively by 19.9 and 13.6 per cent. These results are largely due to higher tax revenue (income and company taxes) as well as to increased taxes on good and services. In 2005, tax revenue is expected to grow by 11.6 per cent and to reach nearly 824.3 billion CFA francs. This is linked to good fiscal yield in the informal sector (due to the combined company tax), to increased direct and indirect taxes and to the very strong performance of Senegalese customs. Tax revenue did not suffer from the reduction in company taxes, from 35 to 33 per cent at present.

Table 2 - Public Finances (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**19.3**	**20.9**	**21.8**	**21.2**	**21.2**	**21.5**	**21.5**
Tax revenue	15.6	18.1	18.5	18.1	18.3	18.4	18.3
Grants	2.5	1.8	2.1	2.2	1.9	2.2	2.3
Total expenditure and net lending[a]	**18.8**	**21.0**	**22.8**	**23.2**	**24.2**	**24.1**	**23.6**
Current expenditure	12.3	13.2	13.9	12.8	13.1	12.9	12.5
Excluding interest	*10.1*	*12.1*	*12.7*	*11.7*	*12.1*	*12.1*	*12.0*
Wages and salaries	6.2	5.7	5.5	5.3	5.3	5.3	5.1
Interest	2.3	1.1	1.2	1.1	1.0	0.8	0.5
Capital expenditure	6.4	7.9	9.1	10.1	10.6	10.9	10.9
Primary balance	**2.8**	**1.0**	**0.1**	**-0.8**	**-2.0**	**-1.9**	**-1.6**
Overall balance	**0.5**	**-0.1**	**-1.1**	**-2.0**	**-3.0**	**-2.7**	**-2.1**

a. Only major items are reported.
Source: DPS data; estimates (e) and projections (p) based on authors' calculations.

Total expenditure rose by 14.7 per cent in 2004 and is expected to reach 1 115.4 billion CFA francs in 2005. Current expenditure, which accounts for 56 per cent of total spending, increased by 5 per cent between 2003 and 2004 and by 15 per cent between 2004 and 2005. Capital expenditure increased by 21 per cent owing to investments in the PRSP priority sectors of health and education. The wage bill for 2005 is predicted at 249.3 billion CFA francs, representing an increase of 14.6 per cent over 2004. This is primarily due to the programme to recruit public-service employees and to the improvement in public-service salaries.

The 2006 Finance Act which was passed on 10 December 2005 states the priorities identified by the AGS and the PRSP. It also makes advances and improvements in the management of budgetary procedures, public spending efficiency, and public procurement. The government has already launched a number of reforms to these ends. These include: adopting an MTEF (Medium-Term Expenditure Framework) for each sector; harmonising nomenclature in order to improve the integration of public investment into the general budget; decentralising the budget; reforming the public procurement system; reorganising administrative control; strengthening structures for budgetary execution control; and modernising the information system. An action-plan framework for budgetary preparation, execution and control was already implemented in 2005 in four "pilot" ministries: health, education, environment and justice. This framework advocates two major steps: *1)* the formulation of ministerial budgets in relation to sectoral programmes; and *2)* the decentralisation of expenditure payments, along with improved management and control of public finances.

With the support of funding bodies (notably the World Bank, the ADB (African Development Bank), the EU (European Union) and other bilateral co-operation agencies), the Senegalese government is seeking to reform public procurement procedures, a key area in the fight against corruption and in encouraging transparency. The cap of 20 per cent of the financial volume of the market which may be awarded by private contract – a restriction imposed by the IMF – will be applied to all levels of the public sector, in both ministries and independent agencies. Given the recent tensions between the IMF and the Senegalese government on the subject of these administrative reforms, these criteria appear ambitious. In a *Letter of Intent* and *Memorandum of Economic and Financial Policies* sent to the IMF in December 2005, the Minister of the Economy and Finance in fact acknowledged that compliance with the private-contract criterion had not been achieved.

Monetary Policy

Senegal's monetary policy, like that of other WAEMU members, is directed by the BCEAO (Central Bank of West African States). Currency pegging to the euro leads the Bank to practise a policy on rates which is largely in line with that of the European Central Bank (ECB). Senegal's money supply rose by 15.6 per cent in 2004 and by 11.2 per cent in 2005 (BCEAO data). Moreover, domestic credit rose in 2004 and 2005 by 4.1 and 7.1 per cent respectively. Net external assets increased by 128.5 billion CFA francs in 2004 and by 82.1 billion in 2005. At the end of 2005, inflation was estimated[2] at 2.3 per cent, compared with 0.5 per cent in 2004, due particularly to the effect of the rise in oil prices, which was however cushioned by the depreciation of the dollar against the euro. Adjustment for the inflationary effects of higher oil prices began late, partly due to government price controls: the rise in prices only began to be felt after the beginning of September 2005. In the same month, consumer prices went up by 3.3 per cent compared with those of September 2004 (year-on-year), corresponding to an average increase of 1.4 per cent over the first three-quarters of 2004. This increase can be attributed to the 3.4 per cent increase in the price of transport, especially — in that same month — of road passenger transport, as a direct result of the rise in retail petrol prices.

External Position

The 1994 devaluation failed to eliminate the trade deficit which has existed in Senegal's local economy since Independence. This deficit deteriorated further in 2004. According to BCEAO figures, it increased from 12.6 per cent of GDP in 2003 to 13.1 per cent in 2004. The 2005 deficit is projected at 14.6 per cent of GDP. This growing deficit is attributable to an increase in imports (which went up by 8.9 per cent between 2003 and 2004) compared with exports, which only went up by 6.0 per cent. Although projections for 2005 predict that exports will increase by 8.5 per cent during 2004, growth in the value of imports is expected to remain higher, at 9.6 per cent.

Oil prices certainly played a role in the deterioration of the balance of trade, but their impact was cushioned by the existence of considerable capacity for processing crude oil destined for re-export after refinement. Hence Senegal also benefited from the rise in export prices of refined products. The oil trade balance – that is, the difference between the value of imports of crude oil and other petroleum products, and that of Senegalese exports of petroleum products – rose only by 7 billion CFA francs, while the overall trade balance deteriorated by 63 billion CFA francs. Among traditionally important Senegalese exports, fishery products and phosphoric acid rose substantially between 2003 and 2004.

Negotiations aimed at an economic partnership agreement (EPA) are presently under way between the EU and ECOWAS (Economic Community of West African States) plus Mauritania. These are expected to be concluded in 2008. The EU, which co-ordinates the project, has expressed disappointment at the "integrated framework" process that seeks to develop a plausible trade strategy, particularly because of the lack of enthusiasm expressed by other funding agencies[3].

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

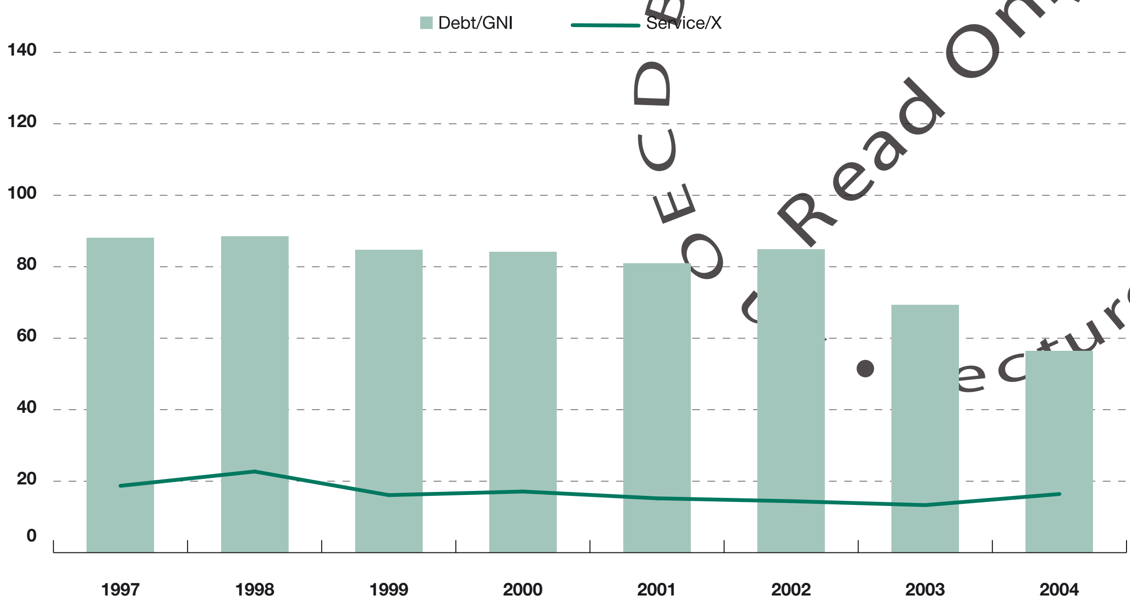
	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-6.2	-10.8	-12.6	-13.1	-14.6	-14.4	-14.0
Exports of goods (f.o.b.)	20.5	21.4	19.6	19.0	19.3	19.5	18.6
Imports of goods (f.o.b.)	-26.6	-32.2	-32.3	-32.1	-33.8	-33.9	-32.6
Services	-0.5	-0.4	-0.3	-0.3			
Factor income	-1.6	-2.6	-2.1	-2.1			
Current transfers	4.0	7.4	8.3	8.9			
Current account balance	**-4.2**	**-6.4**	**-6.8**	**-6.6**			

Source: DPS data; estimates (e) and projections (p) based on authors' calculations.

2. Authors' estimates.

3. The integrated framework is a joint co-ordinated initiative of several international institutions aimed at strengthening the trade capabilities of developing countries; efforts focus on supply-side factors.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

FDI (foreign direct investment) is not an important source of financing for fixed capital formation in Senegal. More recently, FDI has been strongly linked to privatisations. French investments are historically the largest, but their relative importance began to decline in the 1990s. According to BCEAO figures, FDI towards Senegal reached 0.9 per cent of GDP in 2002, 0.8 per cent of GDP in 2003, and 1.5 per cent of GDP in 2004. The country's policy regarding FDI continues to be very active: some features of this policy will be briefly outlined in the section relating to structural issues.

Remittances from Senegalese abroad are, and have traditionally been, also a very important source of external financing for the country. As many of these remittances are made through informal and poorly identified channels, their precise amount is unknown. If the national accounts of the BCEAO are to be believed, remittances from migrants abroad rose from 7.0 per cent of GDP in 2003 to 7.7 per cent of GDP in 2004. Projections for 2005 predict a rate of 7.4 per cent of GDP.

The share of external public debt owed to bilateral creditors was considerably reduced in 2004, following the attainment of the completion point of the HIPC (Heavily Indebted Poor Countries) Initiative in April and the decision of the Paris Club creditors to grant supplementary relief in June. HIPC relief reached 1.8 per cent of GDP, or 9.5 per cent of exports. At the end of December 2004, the stock of external public debt was 1 865.1 billion CFA francs (46.2 per cent of GDP); in June 2005, this figure was estimated to have reached 1 903.5 billion CFA francs (43.6 per cent of GDP), 80 per cent of which is multilateral debt. Debt servicing accounted for 6.0 per cent of GDP in 2004, or 16.4 per cent of exports. The cancelling of the multilateral debt which was decided at the G8 summit at Gleneagles in July 2005 brought Senegal's external debt to below 10 per cent of GDP.

Official Development Assistance (ODA) has long been an important source of financing for Senegal, which was one of the first sub-Saharan African countries to benefit from it. According to DAC (Development Assistance Committee of the OECD) figures, Senegal received more than 400 million dollars a year between 2000 and 2003. In 2004, this amount rose substantially, reaching 1 052 billion dollars (13.7 per cent of GDP). This increase is principally attributable to debt relief.

Almost two-thirds of PDA to Senegal is bilateral: the major sources of funding are, in order of importance, France, Japan and the United States. The PDA disbursement rate – an imperfect measure of aid efficiency – is rising. USAID posted a 94 per cent disbursement rate in 2004, while other funding bodies were more circumspect, citing far lower rates: that of the World Bank was 9 per cent in 2001, and it reached only 20.4 per cent in 2004. Disbursement of EU aid, however, rose sharply, from 7 per cent in 2001 to more than 70 per cent in 2004.

Structural Issues

Recent Developments

Following the devaluation in 1994, Senegal launched an ambitious extended privatisation programme that was almost completed by 2005. Some of these privatisations, particularly in the water and telecommunications sectors, have been considered a success, judging by the performance of privatised companies, by the fact that they are no longer a drain on public finances, and by the lower prices offered for better quality services. At the beginning of 2005, two privatisations – both economically and symbolically significant – remained to be carried out. The first is that of Senelec (the national electricity company), which was privatised in 1999, re-nationalised in 2000, and then underwent a second, unfruitful privatisation attempt in 2002. A new management team, which won the support of public opinion and funding agencies, undertook a fiscal stabilisation programme and the construction of new production facilities, as a prelude to another privatisation attempt. Two power stations are being built in Kounoune, one of which by the Japanese company Mitsubishi. A call for tenders was launched at the end of 2005 for a third power station: together, these three stations will supply more than 180 MW to the network, or more than 45 per cent of its current capacity. Senelec is criticised nonetheless, for its relatively frequent selective power cuts, partly, but not exclusively, due to the exceptional falls of rain of August 2005. Its high tariffs also bring it under criticism, as they create problems of competitiveness for companies.

The second privatisation on hold is that of Sonacos (Société nationale de commercialisation des oléagineux du Sénégal), which transforms groundnuts into oil and oilcakes. Long scheduled for privatisation by the authorities, it too has been the subject of several aborted efforts, through lack of investor interest. It was eventually privatised in March 2005, with the French company Advens now holding 67 per cent of the capital. The privatisation and reorganisation of Sonacos, particularly of the "carreau-usine" system of collecting and marketing groundnut seeds (where payment is made only when goods have arrived at the factory), gave rise to difficulties in several factories (lock-outs and strikes). More than 40 per cent of the company's employees took voluntary redundancy in return for compensation of five years' salary from the State. This could cost the State almost 11 billion CFA francs.

According to the IFC (International Finance Corporation) publication *Doing Business in 2005*, Senegal ranks 132nd out of 155 countries in terms of business environment. This indicator nevertheless hides some significant variations. In terms of licensing and permit procedures, Senegal ranks 68th; and it is 46th in terms of the costs and procedures involved in importing and exporting goods. In other words, it is on a par with some OECD countries. On the other hand, the country's performance in property registration (137th), obtaining credit (136th) and tax payment (137th) was very mediocre.

The creation of APIX (the national agency for investment promotion and major building works) several years ago, as well as the meetings of the Presidential Council for Investment, signal a desire to improve the business environment. The 2006 Finance Act adopted far-reaching fiscal reforms. The most important reduces the company tax rate from 33 to 25 per cent. In reality, companies will pay a fixed rate of 30 per cent. Revenue earned from the tax deductions not granted to companies (in the range between 25 and 30 per cent) will be directed to a private sector support fund. Another reform aims at abolishing the equalisation tax, a sort of "lease premium" much criticised by the private sector. The government has also promised to revise the tax on oil. Other reforms designed to improve the business environment in Senegal include: the promulgation of an Act modernising investment procedures that will oblige the authorities to respond to accreditation requests within five days, with the file going directly to the Prime Minister' Office (the Primature) if necessary; and the adoption of 30 or so Presidential decrees in application of the labour code[4].

Despite this movement towards institutional reform, some problems remain, as for example, the continually perceived lack of transparency in the allocation of public contracts. The press, several entrepreneurs, the political opposition and other observers have pointed out that the private awarding of contracts remains common, and this leads to socio-economic and political tensions. This is particularly the case in the fast-expanding construction sector. The political scandal of the Thiès contracts (see following section) is symbolic of the problem.

The Senegalese financial sector remains sound. It is composed of a dozen banks, three of which are major in terms of net banking product, net results, overall balance, and jobs and resources: SGBS (Société générale de banques au Sénégal), CBAO (Compagnie bancaire de l'Afrique occidentale) and BICIS (Banque internationale pour le commerce et l'industrie du Sénégal). Although the sector is characterised by relatively strong competition, most businessmen complain of caps on loans to SMEs (small and medium-sized enterprises) and on long-term credit. Banks also tend to invoke BCEAO prudential provisions as obstacles to short-term lending. The introduction of new banking regulations in line with the Basel II Agreements[5] could bring about changes in this area.

Transport Infrastructure

Given its favourable geographic position, Senegal could become the West Africa's window on the rest of the world, and so take a strategic role in both the region and the continent. Indeed, several international airlines use the international airport of Dakar as a hub for the African continent: the total annual number of arrivals and departures at the Léopold Sédar Senghor airport is estimated at 20 953, with 1 442 284 passenger transits.

Apart from the airport however, the current transport system is obsolete and poorly distributed throughout the country, with 80 per cent of infrastructure concentrated on 20 per cent of the territory. Because of this, some regions are poorly linked with the rest of the country, and domestic transport of agricultural and industrial goods is difficult. This situation also restricts the movement of goods and people between Senegal, the sub-region and the rest of the African continent. In addition, Dakar urban area has a serious problem of traffic congestion and anarchic urban development which is exacerbated by the absence of an urban development plan. With the crisis in Côte d'Ivoire, the port of Dakar could have temporarily replaced the port of Abidjan and become the hub for products bound for, or arriving from, West Africa. However, in fact, this substitution effect was quite limited. Dakar's ability to play a greater and more lasting role, even after neighbouring Côte d'Ivoire again finds stability, will depend on the progress made in key infrastructure sectors, particularly in transport.

The entire Senegalese economy suffers greatly from the traffic problems in the Dakar urban area, as it is here that 70 per cent of the country's economic activity takes place. The city of Dakar has in fact neither the necessary infrastructure nor an adequate urban development plan for managing this volume of activity, nor for channelling the population movements that it entails. Last August's floods – with their devastating effects on transport, trade, and the lives of Dakar residents in general – provide a glaring illustration of this.

The importance of the transport system for trade in goods and services and for access to markets, as well as for access to basic services — which is an element in the fight against poverty — has convinced the

4. The labour code was passed in 1997, but not implemented, which created legal difficulties for many companies.

5. These agreements aim at international convergence in the revision of the capital adequacy rules for international banks.

authorities to make the transport system a government budget priority.

Investing in transport infrastructure, land settlement, and congestion in Dakar is a priority issue both for the government and for funding agencies. The latter are therefore supporting the authorities in their infrastructure investment efforts. The PST-2 (2nd transport sector programme) negotiated between the State and its development partners (specifically, AFD [Agence française de développement], NDF [Nordic Development Fund], the EU[6] and the World Bank) should come to a close at the beginning of 2007, 18 months behind schedule. It will be replaced by the PST-3. The key support project of the PST-2, which was signed in 1999, was the rehabilitation of a section of the asphalted road network — 174 km have already been completed and 50 km are under construction, out of a total 225 km — as well as a maintenance objective for 161 km of earth roads. The PST-2 also provided for institutional efforts to reform and strengthen capacity in the sector. Road needs are very high given that in 2002, 43 per cent of asphalted roads were in poor or very poor condition, and for unsurfaced roads, the percentage was 86 per cent.

Future projects include a public-private partnership to develop a new airport at Ndiass, situated at 45 km from Dakar, with a capacity of 3-5 million passenger transits. The cost of this BOT (Build-Operate-Transfer) project is estimated at 200 billion CFA francs. On the maritime front, the launch of the "Willis" on the Dakar-Ziguinchor line has not managed to meet demand for passenger and goods transport between the capital and Casamance. The "Willis" replaces the "Joola", which was tragically shipwrecked in September 2002, resulting in the death of almost 2 000 people. Other projects are under way in the sector: the extension and modernisation of the port of Dakar; the construction of a mining port at Bargny; the rehabilitation of the port of Kaolack; and the construction of a bridge over the Gambia River. In terms of rail transport, the gradual conversion of rail gauges (the distance between the rails) from the existing metric gauge to the 1.435 m standard is the priority. This should lower the costs of constructing new lines and purchasing new wagons. Also scheduled are: the construction of a third railway line between Dakar and Thiès; the re-opening of the Dakar-Saint Louis line; the construction of new lines for the exploitation of the iron mines at Falémé and the phosphate mines at Matam; and the gauge conversion of the main Dakar-Tambacounda-Kidira route.

In the Dakar urban area, a new urban transport council, CETUD (Conseil exécutif des transports urbains de Dakar), has been given responsibility for implementing an urban renewal programme aimed at reorganising urban transport with the support of development partners, particularly AFD, the World Bank and the Nordic Development Fund. The strategy of the CETUD focuses on five key areas: infrastructure; security and traffic management; renewal of high-speed buses and suburban trains; improvement of air quality; and capacity development. The first batch of replacement high-speed buses ("Ndiaga Ndiaye") was planned to come into service at the end of November 2005. The buses will cover a large part of Dakar's fragmented transport market. The project for a major toll-motorway linking Dakar to Diamniadio and serving the new Millennium Platform includes plans for an extension towards the town of Thiès: this project forms part of the urban area renewal programme. In November 2005, APIX organised a round-table meeting with development partners to present the final phase of the construction of the Dakar-Diamniadio section and, in particular, to put the case for its funding. A public-private partnership is envisaged, with the State participating at 64 per cent.

Political and Social Context

The floods of August 2005 in Dakar had serious social and economic repercussions. Though beneficial

6. In the framework of its co-operation strategy with the government of Senegal, the EU plans to allocate 70 million euros to the priority transport sector over the period 2002-07. A financing agreement concerning the project to rehabilitate the Ziguinchor/Cape Skirring and Ziguinchor/Mpack roads in Casamance was signed in November 2005 to enable the rehabilitation of 90 km of roads.

to agriculture, the heavy falls of rain showed up the extreme vulnerability of the transport networks, the deficiencies of urban planning, and the anarchic nature of the development of Dakar. The government has announced a 52 billion CFA franc *Jaxaay* ("eagle", in Wolof) plan for the rapid construction of housing for those left homeless and for improvements intended to reduce vulnerability to this type of disaster in the future.

Arguing that the expenses related to the floods have affected election financing, the government is seeking to defer the legislative elections scheduled for 2006 until 2007, so that they coincide with the presidential elections. These wholly budgetary concerns are not stripped of political considerations, as coupling the elections will give the president time to strengthen his coalition and so improve his chances of re-election.

More than in previous years, 2005 was one of ministerial reshuffling and political and partisan repositioning, both in the majority and among the opposition parties. Most of these were linked to the split in President Wade's PDS (Senegalese Democratic Party) between the supporters of the president and those of the former Prime Minister Idrissa Seck. Still mayor of Thiès, Seck was investigated for irregularities in procurement contracts for works carried out for the Independence celebrations in Thiès in 2004. The investigation's findings led to Seck's imprisonment for a good part of 2005. It is unlikely that he will be able to challenge President Wade in the upcoming presidential election, though it is imperative that the president consolidate his support, both inside his party and out. Leaving aside the confrontation between these two figures of the political party in power, the Thiès building works affair has called into question the ability of the State to manage major projects with transparency.

After a long process of internal consultation, social policy in Senegal is adhering to the PRSP framework approved in December 2002 by the Bretton Woods institutions. Control mechanisms for PRSP implementation were established at the same time, and to this end, a unit was created within the Ministry of the Economy and Finance. Around 40 indicators to measure progress under the programme have been identified. Since no new data on indicators have become available since the publication of the ESAM II Senegalese household survey (2001/02), the most recent data are from 2003 at best[7]. According to this survey, literacy was 51.1 per cent for men, but only 29.2 per cent for women. Overall school enrolment was 37 per cent for girls, and 43 per cent for boys. Life expectancy was estimated at 55.6 years, and the infant mortality rate was 78 for 1 000 live births.

The Joint Staff Advisory Note (JSAN) prepared by the IMF and the World Bank in December 2004 on the first year of PRSP implementation is generally positive, although it considers that much progress remains to be made in terms of budgetary transparency, of decentralising and distributing resources, of selecting urban infrastructure projects, and of monitoring PRSP goals. Nevertheless, despite a relatively high economic growth rate, UN personnel expressed doubts in 2005 that Senegal was able to reach the MDG (Millennium Development Goals). Since analysis of the ESAM II data revealed strong poverty elasticity in relation to economic growth, the new AGS is targeting accelerated growth in order to reduce poverty even more rapidly.

7. Most of the figures have been extracted from the 2005 edition of the UNDP *Human Development Report.*

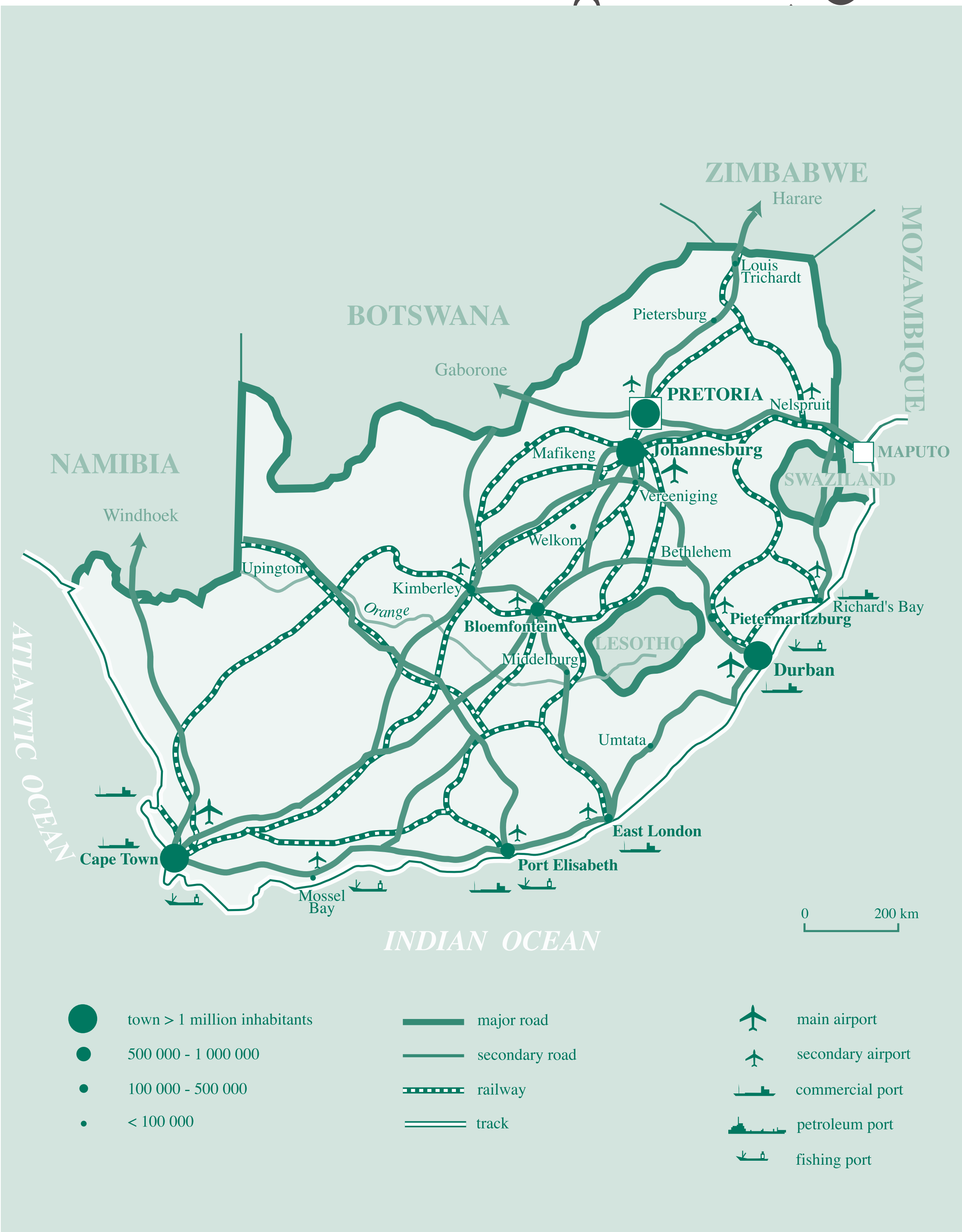
South Africa

key figures

• Land area, thousands of km^2	1 221
• Population, thousands (2005)	47 432
• GDP per capita, $ PPP valuation (2005)	11 470
• Life expectancy (2000-2005)	49
• Illiteracy rate (2005)	12.9

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/247175636241

South Africa



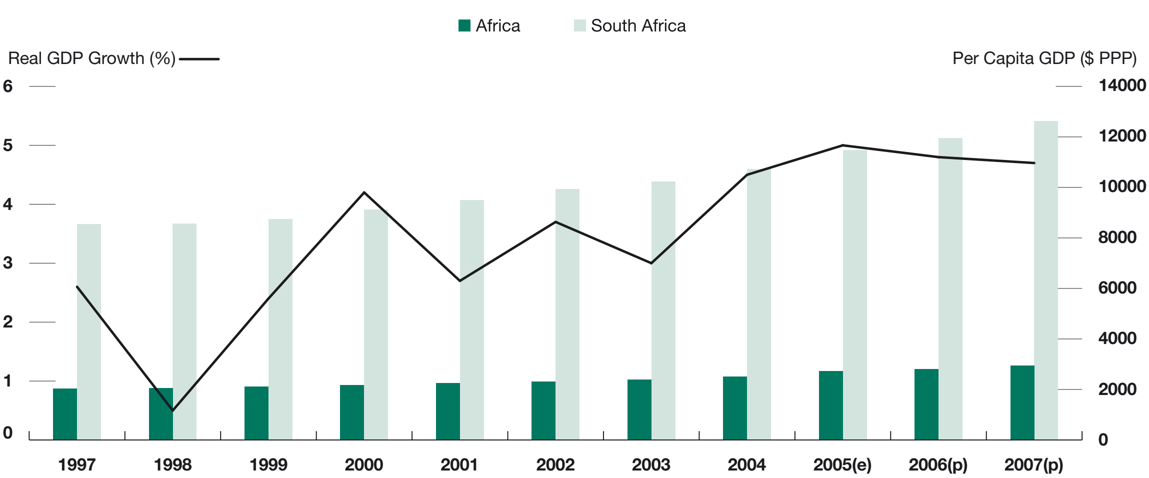
IN 2005, THE SOUTH AFRICAN economy experienced GDP growth of 5 per cent, its highest since the end of apartheid, and strong GDP growth, estimated at 4.8 per cent, is forecast for 2006. Although this good performance is due in part to a favourable international environment, it also reflects the sound economic policies that have been carried out since 1996 in accordance with the Growth and Employment and Redistribution (GEAR) strategy. Responsible monetary policy has paid off in the form of stable inflation, just 4.5 per cent in 2004, and low short-term interest rates. Similarly, the government's conservative fiscal strategy has controlled the deficit, which is now expected to amount to only 0.5 per cent of GDP for the 2005/06 fiscal year. These sustained responsible monetary and fiscal policies have entailed substantial increases in international reserves and raised the confidence of foreign investors in the economy and the rand. Several credit-rating agencies upgraded South African ratings in 2005, decreasing the cost of capital for South African borrowers by reducing sovereign spreads to historic lows. The falling cost of capital and sustained economic growth have allowed the South African government to increase development expenditure and easily finance a domestic demand-driven and widening current-account deficit, which reached 3.3 per cent of GDP in 2004.

Growth is picking up and the authorities have unveiled an ambitious Accelerated and Shared Growth Initiative.

Despite this generally positive picture, however, South Africa is still characterised by sharp economic dualism. While much of the white population and a growing black middle class benefit from a "first world" economy, large sections of the population still live in poverty. So far, the African National Congress (ANC) government has been able to maintain austere macroeconomic policies while retaining the support of the black majority. Nevertheless, impatience regarding the unequal distribution of the benefits of growth appears to be building and could lead to political and social instability that would jeopardise these hard-won macroeconomic achievements.

While growth in the post-apartheid era has been respectable and is now accelerating, it has been slow

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and South African Reserve Bank data; estimates (e) and projections (p) based on authors' calculations.

in comparison with a number of other emerging economies. Moreover, the growth that has occurred has not substantially reduced the high rate of unemployment. This poor performance of growth and employment has resulted from several factors, notably from the lack of domestic and foreign investment, a deficient infrastructure, the lack of competition and the shortage of skilled workers. Accordingly, the government is now focusing on these microeconomic impediments, with a goal of 6 per cent growth in the coming years. Taking advantage of the country's strong fiscal position, President Mbeki plans to unveil an ambitious Accelerated and Shared Growth Initiative (ASGI) in his address to the nation in February 2006. The ASGI calls for reduced taxation, significant investments in the infrastructure, assistance to strategic economic sectors, and increased resources for education and training. The programme's success will hinge crucially on improving the government's implementation capacity as, in recent years, weaknesses in this area have severely hindered progress in areas such as infrastructure, education, poverty alleviation and health.

Recent Economic Developments

GDP growth is expected to be in the area of 5 per cent in 2005 after reaching 4.5 per cent in 2004, the acceleration in growth being broadly based across sectors.

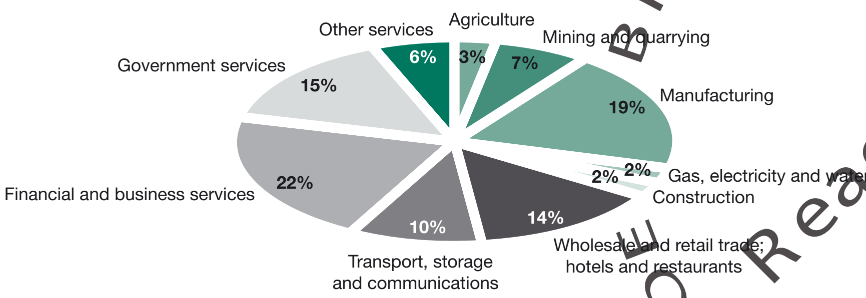
The primary sector, which accounts for 10 per cent of GDP, experienced 3.9 per cent growth during the first three-quarters of 2005 with respect to the same period in 2004. Agriculture, representing 3 per cent of GDP, delivered a 4.9 per cent growth rate, largely thanks to a bumper maize crop in 2004/05 and strong livestock production. The horticulture and fruit industries also turned in robust performances. Nevertheless, the strong rand and the inadequate infrastructure affected the agricultural sector adversely. In particular, the surplus maize could not be fully exported, resulting in a collapse in maize prices and leading many small producers to the brink of bankruptcy. South Africa's leading position in exports of off-season citrus fruits, wine and other produce to the Northern Hemisphere was also affected by these factors. In short, both small-scale farmers and large export-oriented agribusiness would benefit from improved transport infrastructure and more generally, from a more favourable business climate.

The mining sector, which accounted for 7 per cent of GDP in 2004, strongly benefited from vigorous global demand and high prices, growing 3.6 per cent in the first nine months of 2005. With the notable exception of gold, all major sub-sectors (platinum, copper, nickel, iron ore and steel) have grown at a brisk pace. Platinum, in particular, benefited from rising world prices. Despite rapidly rising prices, gold output, after falling by 21 per cent between 2000 and 2004, shrank a further 12 per cent during the first nine months of 2005. This poor performance reflects the exhaustion of easily accessible ore and the impact of the strong rand. Nonetheless, the rising rand-denominated prices of gold in late 2005 bode well for greater future profitability and thus for increased production in 2006, provided that local companies retain their focus on cost cutting and restructuring.

The secondary sector, accounting for 23 per cent of GDP, recorded 4.9 per cent growth during the first three-quarters of 2005. The manufacturing sector, which accounts for 19 per cent of GDP, grew 4.6 per cent despite the strong rand. In fact, the strength of the rand may be a blessing in disguise, insofar as it has enabled the monetary authorities to maintain low interest rates. The Investec Purchasing Managers Index (PMI), a leading indicator of manufacturing activity, posted an overall upward trend in 2005.

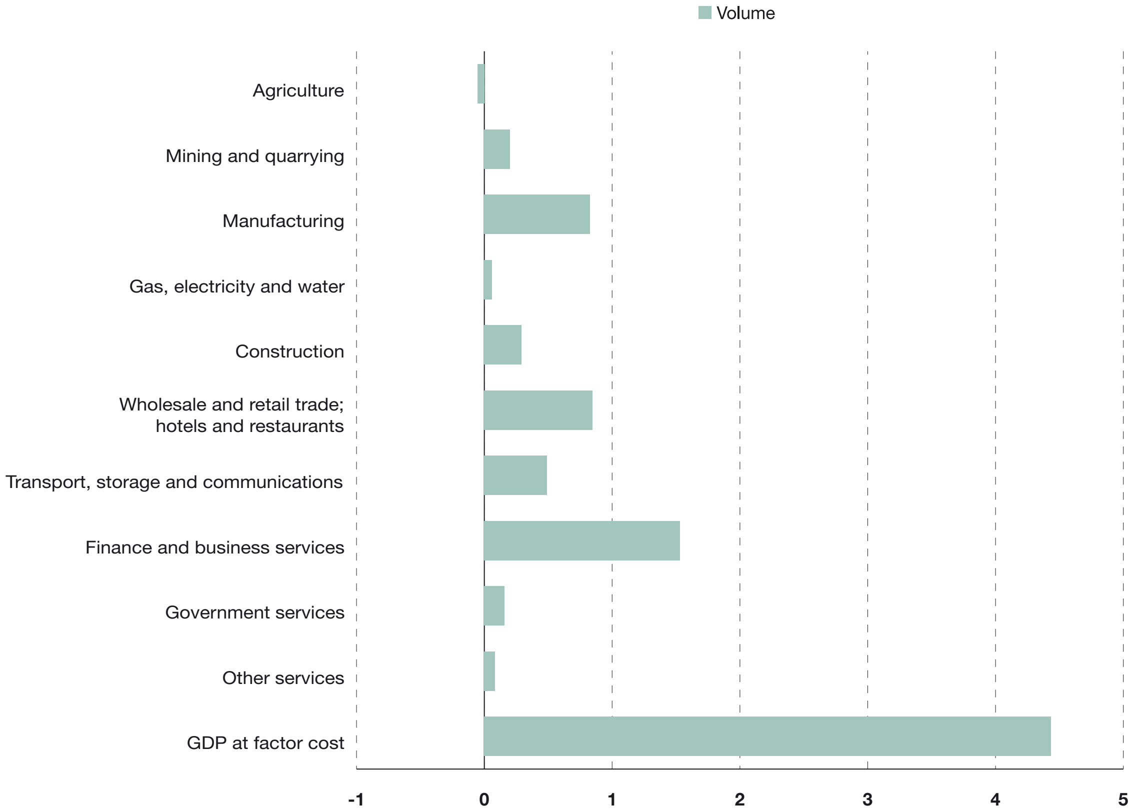
Some export-oriented manufacturing sub-sectors are nonetheless facing difficulties. The textile industry is a case in point. While the strong rand and increased Asian competition since the end of the Multi-Fibre Agreement (MFA) are certainly important local factors, notably labour-market rigidities, also loom large. Despite high tariffs – greater than 40 per cent on some products – other forms of government assistance in the course of the last decade and preferential access to the United States (US) market under the African Growth and Opportunity Act (AGOA), textile and

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on South African Reserve Bank data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on South African Reserve Bank data.

clothing employment declined 7.5 per cent between 2000 and 2004. The government is reluctant to raise protection even more, so the industry will have to either increase efficiency or shrink further[1]. The situation of the important South African automotive industry, representing 6.4 per cent of GDP and the employment of 32 000 workers in 2004, although not as dire as that of the textile industry, also provides cause for concern. Compared with other developing countries, the sector displays low productivity and high labour costs, which to date have been partially offset by the low costs of electricity and raw materials and, decisively, by a system

1. See *Submission to the Portfolio Committee on Trade and Industry - Clothing, Textile & Footwear Sector,* http://www.dti.gov.za/clothing/submission.pdf

of export subsidies and import tariffs afforded by the Motor Industry Development Programme. Export subsidies do not, however, appear to be compatible with World Trade Organisation (WTO) rules and may have to be scaled back, if not completely phased out, intensifying the challenges that the industry is facing.

The construction sector, constituting 2 per cent of GDP, expanded at a brisk 9.6 per cent rate in the first three-quarters of 2005 thanks to a buoyant property market driven by low interest rates, rising household disposable income and rising public expenditure on infrastructure.

Tertiary activities, representing 66.1 per cent of GDP, were those that most benefited from vigorous domestic demand in 2005 with 5.3 per cent growth in the first three-quarters of the year. The financial industry led the way, growing at a rate of 8.4 per cent, largely thanks to the expansion of real-estate finance and retail banking supported by the Mzansi bank-accounts initiative, aimed at enlarging the access of the poorest to banking services. Real estate, civil engineering (associated to major infrastructure projects), telecommunications (the cell-phone industry in particular), distribution and transport also expanded strongly. As well, the South African tourism sector withstood the strength of the rand in 2005, with a 10 per cent increase in foreign tourists in the first nine months of 2005 following the record 6.7 million tourists in 2004. The World Cup in 2010 will provide a further impetus to tourism.

Output growth has been primarily driven by domestic demand, which increased by 6.5 per cent in 2005. Private consumption recorded a strong increase of 6 per cent, while government consumption posted an increase in real growth of 7.8 per cent. Several factors have contributed to the rapid pace of private-consumption growth during the last two years. First, the real income of households has been increasing, especially for the less well-off, who have benefited from rising wages, employment and transfer payments. Nominal remuneration per worker rose by 12.7 per cent year-on-year in the fourth quarter of 2004, while inflation remained around 4 per cent. The March 2005 Labour Force Survey indicates a 6.5 per cent increase in formal employment between September 2001 and March 2005 and a corresponding decline in the official unemployment rate, from 29.4 per cent to 26.5 per cent in the same period. Second, increased consumer borrowing, driven by low interest rates and expanded collateral based on rising housing prices, has also increased demand, especially among the emerging black middle class. As a result, household debt rose sharply to 62 per cent of household disposable income in the second quarter of 2005. Despite this increase, debt service remains manageable at 6.5 per cent of disposable income. Third, the most well-off have also experienced a wealth effect on consumption, induced by the strong performance of the Johannesburg Stock Exchange, which gained 35 per cent between April and September 2005.

This favourable context improved business prospects and spurred private investment, with the First National

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**16.7**	**16.1**	**16.6**	**17.9**	**18.6**	**18.4**	**18.6**
Public	4.8	4.1	4.3	4.7	4.7	5.2	5.4
Private	11.9	12.0	12.2	13.2	13.7	13.2	13.3
Consumption	**82.2**	**80.2**	**81.5**	**82.8**	**80.7**	**81.2**	**80.6**
Public	19.2	18.4	19.1	19.9	20.8	21.3	21.7
Private	62.9	61.8	62.3	63.0	59.9	59.9	58.9
External sector	**1.2**	**3.7**	**1.9**	**0.7**	**0.6**	**0.4**	**0.7**
Exports	24.6	32.7	27.9	26.6	26.6	24.5	25.3
Imports	23.4	29.1	26.0	27.3	26.0	24.1	24.6

Source: South African Reserve Bank data; estimates (e) and projections (p) based on authors' calculations.

Bank and Bureau for Economic Research (FNB/BER) Consumer Confidence Index revealing business and consumer confidence to be surging in 2005. Public investment also rose sharply in 2005, by 8 per cent in real terms, contributing to a total fixed investment growth of 6.5 per cent. Export volume stagnated, however, with only 0.3 per cent growth, while import volume, boosted by domestic demand, grew by 6 per cent.

In 2006, GDP growth should remain vibrant at about 4.8 per cent. Private consumption should decelerate to 3.4 per cent growth due to a slower rise in labour compensation and housing prices. It is investment that is forecasted to take over as the main driver of growth at 7.6 per cent, boosted by the ambitious ASGI investment plans in energy, transport[2] and industrial development zones (IDZs). These public-investment projects might in turn catalyse increased private investment. For example, the Coega IDZ is designed to host the Coega Smelter Project, which is expected to produce up to 660 000 tonnes of aluminium annually after a $2.2 to $2.5 billion investment. This project is the subject of negotiations between the South African authorities and the international aluminium group Alcan. A decision is expected in 2006. The Coega IDZ is intended to be a focal point for other foreign investment as well.

Macroeconomic Policies

Fiscal Policy

Unexpectedly strong growth in 2005 is expected to bring down the 2005/06 fiscal deficit to 0.5 per cent of GDP instead of the 3.5 per cent of GDP anticipated in the February 2005 budget. In 2004, the budget deficit of 1.5 per cent of GDP also came under the targeted 3.1 per cent. The decline in the projected 2005 deficit was essentially due to unexpected revenues of ZAR41 billion (South African rands) and debt-service costs that were ZAR1.9 billion less than anticipated, while expenditures were only ZAR1.2 billion higher than budgeted.

The higher-than-expected revenues originated in value-added taxes (ZAR9 billion), corporate income taxes (ZAR16.2 billion), personal income taxes (ZAR8.8 billion), taxes on property transactions (ZAR1.2 billion) and import taxes (ZAR5.8 billion). Although much of this bonanza is attributable to the unexpectedly vigorous economic activity, it also resulted from enhanced efficiency in tax collection by the South Africa Revenue Service (SARS) and a broadening of the tax base. Tax revenues rose from 24.5 per cent of GDP in 2000/01 to 26.1 per cent of GDP in 2005/06. The improving fiscal situation made room for income-tax relief for both individuals and companies. In 2006, greater exemptions for medical contributions and employer-provided health services will provide additional relief to lower-income taxpayers. The 2006/07 budget should also provide substantial relief for taxpayers through inflation adjustments to tax brackets.

The government's sustained fiscal discipline is manifested in a total gross debt of only 35 per cent of GDP in 2005. Moreover, 86 per cent of the total stock of public debt is rand-denominated, thus largely shielding the budget from currency risk. The country's sound fiscal policies have been recognised in the form of better credit ratings. South Africa's rating was upgraded in January by Moody's from Baa2 to Baa1, and in August by both S&P and Fitch from BBB to BBB+, putting it in the same range as countries such as Poland, Thailand, Mexico and Chile. South African bond spreads have declined correspondingly.

The government's sound fiscal position provides room for the greater spending embodied in the ASGI, as well as the previously mentioned tax cuts. The budget released in February 2006 sets out the South African fiscal strategy for 2006/07 and revises the Medium Term Expenditure Framework (MTEF) through 2008/09. Based on assumptions of a continued annual average GDP growth of 5 per cent and associated revenue growth, the MTEF allows for a substantial increase of expenditures of ZAR160 billion between 2005 and 2008. Non-interest expenditure is set to

2. Eskom and Transnet are planning to spend ZAR134 billion in the next five to seven years, 26.1 billion of which in 2006.

grow approximately 7 per cent a year, increasing as a share of GDP from 22.8 per cent in 2004 to 24.8 per cent in 2007. Between 2005 and 2008, expenditures on social services – including education, health, welfare, housing and community development – are expected to increase by 36 per cent to ZAR305 billion while expenditures on transport and telecommunications are expected to double during the same period to ZAR30 billion.

At the same time, the government is maintaining a prudent fiscal stance. Expenditures on education, health and social security services as a share of GDP will remain kept in check through 2008/09. Although capital expenditure, notably for infrastructure, is a high priority for the government and is slated to grow faster than current expenditure, the share of capital expenditure in total expenditure will remain low, increasing from 4.1 per cent in 2004/05 to only 4.8 per cent in 2008/09. Most significantly, public deficits are expected to average only 2.1 per cent of GDP in the next three years.

The implementation of ambitious spending plans remains constrained by the limited administrative capacity of the government, especially at the provincial and municipal levels. Nevertheless, more resources will be channelled through regional and municipal governments, requiring efforts to upgrade their capacities. The government plans two major efforts to address this problem. First, it is to expand the Project Consolidate initiative, in which teams of financial experts as well as project-management and -planning specialists provide training to local officials. This programme will be extended to 136 municipalities in the next three years. Second, municipalities will receive ZAR1.1 billion in capacity-building and restructuring grants during the same period.

Monetary Policy

The South African Reserve Bank (SARB) maintains a policy of inflation targeting (IT) aimed at keeping inflation, as measured by the CPIX[3], in a range of 3 to 6 per cent. Monetary authorities have no official exchange-rate target, but they nevertheless take into consideration potential pass-through effects of currency depreciation on domestic prices. During 2005, the SARB reduced interest rates once, in April, from 7.5 per cent to 7 per cent, but otherwise kept them steady.

Inflation has remained in the SARB's inflation target range since September 2003 and stood at 3.9 per cent in 2005. The strong rand largely offset the effects of rising world oil-price increases on the overall price level, and the CPIX, excluding petrol and diesel, showed little change in 2005. Unit labour costs increased at a 4.2 per cent annual rate in the first half of 2005

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

	1997/98	2002/03	2003/04	2004/05	2005/06(e)	2006/07(p)	2007/08(p)
Total revenue and grants[b]	**23.4**	**24.0**	**23.5**	**24.8**	**26.5**	**25.9**	**25.8**
Tax revenue	22.9	23.6	22.9	24.3	26.1	25.5	25.4
Total expenditure and net lending[b]	**26.4**	**25.1**	**25.7**	**26.3**	**27.0**	**27.8**	**27.8**
Current expenditure	25.8	24.5	26.0	26.3	26.3	26.9	27.3
Excluding interest	*20.2*	*20.6*	*22.4*	*22.8*	*23.2*	*23.9*	*24.5*
Wages and salaries	10.5	9.3	9.5	9.2	9.4	9.8	9.9
Interest	5.5	4.0	3.6	3.5	3.2	3.0	2.8
Capital expenditure	1.1	1.1	1.2	1.1	1.2	1.3	1.3
Primary balance	**2.5**	**2.9**	**1.4**	**2.0**	**2.7**	**1.1**	**0.8**
Overall balance	**3.1**	**1.1**	**2.3**	**1.5**	**0.5**	**1.9**	**2.0**

a: Fiscal year begins 1 April.
b: Only major items are reported.
Source: South African National Treasury data; estimates (e) and projections (p) based on authors' calculations.

3. Consumer price index, excluding mortgage-interest costs for metropolitan and other urban areas.

compared to 7.2 per cent in 2004. Apparently, the credibility of the SARB's anti-inflationary monetary policy and the strong rand have held down inflationary expectations. According to the Bureau of Economic Research survey, the expected rate of CPIX inflation is 5.2 per cent in 2006 and 5.4 per cent in 2007, well within the SARB's target range. Furthermore, capacity utilisation in the manufacturing sector is unchanged from 2004 at a moderate 83.9 per cent, providing little indication of inflationary pressure.

The rand remained largely stable despite a widening current-account deficit. The currency has been supported by high commodity prices, upgraded credit ratings and capital inflows, which more than cover the current-account deficit, with resulting increases in international reserves. While local manufacturers continue to decry the strength of the rand, the real effective exchange rate has returned to the average 1996-2000 level.

In short, fiscal policy remains prudent despite expenditure increases, and inflation is under control thanks to credibly but not unduly restrictive monetary policy.

External Position

Along with higher world oil prices, strong domestic demand – both consumption and investment – brought about a 10 per cent increase in the value of imports (in rands) during the first three-quarters of 2005. Exports grew at an estimated 2.5 per cent in value, mainly thanks to the previously mentioned strength of demand for South Africa's natural-resource-based products, notably platinum and diamonds. Gold exports, second to platinum as a source of export revenues, dropped by 17.2 per cent, however. Despite a strong rand, manufacturing exports have fared well, growing at a rate of 17.6 per cent. The two main manufacturing products exported by South Africa, steel and motor vehicles, recorded 19.2 per cent and 11 per cent growth, respectively.

The trade deficits in both the oil and non-oil merchandise rose to about 1.7 per cent of GDP in 2005. At the same time, the service and investment income balance is estimated to have posted a deficit of about 2.5 per cent of GDP. As a result, the current-account deficit is estimated to have reached 4.2 per cent of GDP in 2005.

In December 2004, South Africa concluded a preferential trade agreement with the Mercado Común del Sur (Mercosur). Negotiations to reach a similar arrangement with India started in the second half of 2005. The government is also committed to negotiate a trade arrangement with China, but this may be some time in coming.

Though flows of foreign direct investment (FDI) remain small by the standards of emerging markets, inflows were unusually large in 2005, at an estimated 2.8 per cent of GDP. The surge in 1995 was due in part to several major transactions, including Vodaphone's bid for more Vodacom assets in the telecommunications sector and the Barclays-Absa deal in the banking sector. Substantial additional inward FDI is on the way. Tata Steel and Mita Steel have embarked on negotiations with Anglo American to acquire a 79 per cent stake in

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	1.6	4.3	2.1	0.1	1.7	2.1	2.0
Exports of goods (f.o.b.)	21.0	28.5	23.2	22.4	19.8	18.0	18.4
Imports of goods (f.o.b.)	-19.4	-24.2	-21.1	-22.5	-21.5	-20.0	-20.4
Services	0.4	0.6	0.3	0.5			
Factor income	2.2	2.5	2.8	2.0			
Current transfers	0.5	0.5	0.5	0.7			
Current account balance	**1.5**	**0.7**	**1.4**	**3.3**			

Source: South African Reserve Bank data; estimates (e) and projections (p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)

Source: IMF and World Bank.

Highveld Steel & Vanadium Corp Ltd., the second largest steelmaker in South Africa. Additional FDI may be forthcoming in: telecommunications, where the French cellular operator Orange may be interested in acquiring the local operator MTN; retail, where Wal-Mart has shown interest; and in the tourism industry. From a balance-of-payments viewpoint, however, these expected FDI inflows are likely to be partly offset by growing outflows, to some extent to other African countries.

Despite the surge in FDI in 2005, the main source of current-account financing in 2005 has remained foreign portfolio investments, spurred by growing confidence in South Africa and its currency, as noted above.

With a current-account deficit more than financed by capital inflows, the SARB's international liquidity position increased by $7 billion between January 2005 and January 2006. As a result, reserve coverage of imports rose from 7 weeks at the end of 2003 to 15 weeks in June 2005, while the ratio of net foreign exchange reserves to gross external short-term debt stood at 120 per cent in September 2005 up from 51 per cent in December 2003. Furthermore, South Africa's foreign debt was just 20.2 per cent of GDP at the end of 2005, 38.5 per cent of which was rand-denominated, while interest payments were limited to 3.6 per cent of export revenues. Capitalising on the country's strengthened external position, the government is planning further liberalisation of capital controls. In particular, limits on holdings of foreign assets by South African banks will be raised in 2006.

Structural Issues

Recent Developments

Restructuring of state-owned enterprises in the telecommunications, energy and transport sectors continued to receive significant attention from the government in 2005. Although the year saw some success in increasing competitiveness in the telecommunications sector, restructuring is still proving difficult in the others. In addition, although the business environment is largely satisfactory, efforts to lower the cost of doing business in South Africa and to make growth more job-intensive are critically in order.

The recent economic boom has led to increased energy demand, with growing pressure on the power grid. Although such energy shortages were not expected until 2010 and Eskom, the power utility, remains confident that it can meet increased demand and finance its capital expenditure programme, the government has had to revise its investment timetable. Real signs of stress are evident in some provinces. Cape Town, for example, experienced three blackouts in the autumn of 2005. Despite Eskom's claims that sufficient capacity is in place to avoid future blackouts, there is concern that the Western Cape province may face rolling blackouts until new power lines connecting the coal-fired power stations in Mpumalanga and Koeberg are completed in 2007.

Eskom was given the green light in 2004 to invest about ZAR92.9 billion in new power stations, transmission and distribution. To that end, five consortia have qualified to bid for the exclusive rights to build, own and operate two new power stations needed to meet South Africa's growing energy demands. These new plants in the Eastern Cape and KwaZulu-Natal should be fully operational by the end of 2008. The introduction of independent power producers will bring competition to Eskom, which currently produces 95 per cent of South Africa's electricity, and further reduce the cost of electricity, already among the cheapest in the world.

There has been some progress in bringing competition to the telecommunications market. In December 2005, after a three-year delay, the Independent Communications Authority of South Africa licensed a second national operator to operate a fixed-line telephone network in the public domain, providing some competition to Telkom starting in the second half of 2006. The six-group coalition included the black-empowerment group Nexus Connexion and the Indian group Tata. As in many African countries, the greatest growth has been in mobile telecommunications. There are over 18 million cell-phone subscribers compared with only 4.8 million fixed-line subscribers. In addition, as in other emerging markets, international mobile-phone companies are showing increased interest in investing in South Africa. The announcement in late 2005 of a joint venture between South Africa's Cell C and Branson's Virgin Mobile followed Vodafone's announcement that it planned to increase its stake in South Africa's Vodacom to 50 per cent, equalising its stake with Telkom's. Despite increased competition in telephony, Telkom retains substantial control over Internet access, and Internet-service providers continue to complain about Telkom's dominance and anti-competitive practices.

During 2005, the South African banking system remained sound and banks benefited from South Africa's strong growth. The average capital-adequacy ratio slightly receded from 13.2 per cent in December 2004 to 12.5 per cent in October 2005 but remains well over the minimum capital-adequacy ratio of 10 per cent; only one bank fell below the required threshold in 2004. In addition, overdue payments were less than 2 per cent of total loans and advances in October 2005. All the same, the South African banking sector suffers from low competition. The sector is dominated by the "big four" banks, which in December 2004 constituted 83.7 per cent of the banking-sector assets. It remains to be seen whether the Barclays-Absa deal will help alleviate this problem.

Business confidence is high in South Africa thanks to the efficient financial market and a largely friendly business environment. Nevertheless, problems remain. The South African Chamber of Business (SACOB) points to deficiencies in public services as impediments to business. Other pressing challenges include labour-force skills and education, labour-market regulation, exchange-rate instability and crime (South Africa Investment Climate Assessment, 2005). The lack of competition in industries producing intermediate goods such as steel and chemicals also produces inefficiencies and additional costs for downstream activities and consumers.

Many consider inflexible labour-market regulations to be a major obstacle to private investment, especially in labour-intensive activities. Indeed, South African firms have about twice as much capital per worker as firms in Lithuania, Brazil and in the most productive areas of China. Growth has consequently failed to be as labour-absorbing as in other emerging economies. Business organisations attribute the economy's low labour intensity to high labour costs and labour-market regulations, which inhibit employment. For instance, many claim that wage setting is too centralised, especially because bargaining council agreements are extended to non-unionised small firms. The evidence, however, is contested by unions and their supporters, who claim that labour-market regulations are not enforced strictly.

Regardless of the controversies concerning labour-market rigidities, there is a broad consensus that skill shortages, inequality in access to education for black South Africans and immobility of the working-force population, all legacies of the apartheid regime, are barriers to well-functioning labour markets. Shortage of skilled labour is a particularly important barrier to business development. Engineers, scientists and artisans are so scarce that many companies want to import people with these skills from abroad, which would require an amendment to the Immigration Act. Given the unemployment rate, such proposals are controversial. The government is also considering revision of the Employment Equity Act to remove obstacles to employing skilled white South Africans, notably engineers.

Several initiatives aim to improve the skill level of the working population. For example, the 2003 Skills Development Act and Learnership programmes use financial contributions from private companies to invest in training the South African workforce. These programmes have had limited success so far, not least because most skills-development programmes are targeted at the employed. The 23 Sector Education and Training Authorities (SETAs), responsible for designing sector-specific skill-development strategies and promoting learnerships, have also had uneven results.

The affirmative-action Black Economic Empowerment (BEE) programme also continues to provoke debate in South Africa. There are some encouraging signs that a black middle class is emerging, but broadening the breadth of empowerment remains crucial. More sectors are writing charters that provide a framework and scorecard for empowering historically disadvantaged individuals and communities. The Service Charter, which is particularly relevant to small and medium enterprises, should be published in 2006. The government is also currently proposing "codes of good practice in empowerment", to which all charters should conform. Some complain, however, that these codes would lead to too much central decision making in areas that would be better left for sector-by-sector level negotiations.

Transport Infrastructure

The provision of adequate transport infrastructure is one of the key elements of South Africa's strategy for growth. While South African transport is in stellar condition compared to other African countries, the quality of the various components of the system is uneven and higher growth of output and trade require new investments. Organisation and financing for roads is superior to that of the other transport systems. The railways and ports, in particular, function poorly and constitute obstacles to increased growth. Moreover, demand is increasing and the growth of freight traffic has surpassed most of the 20-year growth forecasts made by the Moving South Africa (MSA) strategy in 1999. Rapid urban development and migration to the cities, as well as the forthcoming soccer World Cup in 2010, provide additional pressure to strengthen urban transport infrastructure.

The Department of Transport (DOT) oversees overall co-ordination of transport policy, with particular responsibility for roads, aviation, and passenger and commuter rail, while the Department of Public Enterprise (DPE) is responsible for rail and ports, i.e. the parastatal Transnet and her subsidiaries Spoornet, South African Ports Operations (SAPO) and the National Ports Authority (NPA). Transport policy is built on the framework set out by the 1999 MSA strategy and the 2000 National Land Transport Transition Act. A National Roads Plan is currently being developed.

Going forward, the government is working to ensure that different parts of the transport system work together effectively. To date, this goal has been undermined by the fact that the DOT and DPE have overlapping functions and powers, with resulting waste, confusion and turf battles. Addressing this problem of overlapping responsibilities is a large part of the newly approved 2005 National Freight Logistics Strategy. The strategy also seeks to open the ports and railroads to competition, as is already the case in the road and airfreight sectors.

Investment in the road network since 2001 has resulted in a doubling of the surfaced national toll and non-toll roads, with a further doubling targeted by 2010. There are 56 000 km of surfaced provincial roads, 301 000 km of unpaved (gravel) road network, 168 000 km of surfaced and unpaved urban roads, and 221 000 km of unpaved rural roads including access roads. The road system is the only part of the national transport system that receives regular investment, although even there, investment levels are well below the levels necessary to maintain all roads in good condition. Roads receive a fiscal allocation of 900 million rands per annum and 5.2 billion rands of private-sector funding through toll-road concessions.

In 2003, 74 per cent of domestic freight was carried by road and 26 per cent by rail. In the last decade, freight levels on roads have grown at an annual rate of 4 per cent, while rail freight traffic has shown a slight decline.

South Africa is expected to experience the highest growth in airfreight of any country in the world during the next decade. Johannesburg International Airport is a rapidly growing cargo hub that is likely to experience capacity constraints in the near future. There are two other international airports, in Cape Town and Durban, and seven regional airports.

The railways and ports are controlled by the state monopoly Transnet. They are the weakest links in the South African transport system. Spoornet, a Transnet subsidiary, has a near monopoly on commercial cargo transport by rail. South Africa is home to 26.6 per cent of the African continent's rail network with 22 300 km of rail. There are rail lines reserved for iron ore and coal, which account for most of the profits generated by Spoornet.

Rail infrastructure suffers from 15 years of deferred investment: 45 per cent of trains are late and 25 per cent do not show up, freight loads per wagon are at only half the international best-practice level; and the average age of locomotives is 25 years, compared with the international average of 16 years. Derailments have also been too frequent, with two just in October 2005. As a result of these efficiency problems, customers who use rail do so only for goods that are least time-sensitive, limiting Spoornet's ability to increase container traffic.

Ports are also owned by the state monopoly Transnet, though there are a few concessions run by private operators. Despite an increase in investment in the past few years, the ports are under growing pressure from rising demand. Container volume handled in South Africa's seven commercial ports has grown at a 7.25 per cent annual rate since 2000. In addition, the ports remain extremely inefficient by international standards. They move 17 container units per hour versus a best-practice standard of 35. One particular problem is the inefficient interface between railcars and ships, which causes regular, severe congestion problems. The lack of competition in port operations is an underlying source of these inefficiencies. Even compared with some other African countries, South African ports perform poorly. For example, the port of Dar es Salaam (Tanzania) averages 21 container moves per hour, the ports of Namibia 18 and those of Brazil 42.

Given that Transnet controls the port and rail systems, its restructuring strategy is crucial to improving the inefficient port and rail systems in South Africa. The restructuring strategy calls for Transnet to transform itself into a freight transport company. Transnet will narrow its focus on ports, rail and pipeline businesses, which are currently operated by its subsidiaries Spoornet, SAPO, the NPA and Petronet. Transnet will divest itself of other business, including passenger rail service, tourism and baggage handling, which have generally shown poor performance and required cross-subsidisation, using Spoornet and SAPO profits. In particular, South African Airways will be split off from Transnet and will report directly to the government as of the spring of 2006. These reforms are to be accompanied by ZAR40 billion in investment in freight infrastructure, which is essential to upgrade the system and satisfy the rising demands.

Substantial barriers to restructuring Transnet remain, however. First, despite the government's efforts to broker an agreement between the unions and Transnet through the Transnet Restructuring Committee (TRC), the unions are calling for strikes, claiming that Transnet breached the "letter and spirit" of the constitution of the TRC. Union leaders are particularly worried about the 25 000 jobs they claim will be lost. Second, the extensive cross-subsidisation between Transnet's various subsidiaries makes it difficult to identify which business units are performing well and should receive additional investment and which are performing poorly and should be eliminated.

Urban transport infrastructure is under increasing stress as well, as traffic volumes grow in cities such as Gauteng and Durban, impeding the flow of both persons and merchandise. Due in part to the rising public anger of commuters, the DOT has made it a high priority to improve commuter rail-service delivery. The DOT reform programme emphasises the institution of public-private partnerships that will secure increased public investment. One such example is the construction of the high-speed Gautrain rail line between Pretoria and Johannesburg. The 80-km connection is made up of two links, one from Pretoria and Johannesburg and another between Johannesburg International Airport and Sandton. The latter link is highly controversial because of its 750 million euros cost, the high level of subsidies guaranteed by the authorities to the private operator, its limited integration with the pre-existing rail system and the expected modest daily number of passengers of only 600. Nonetheless, at its last meeting in 2005, the South African Cabinet reiterated its support for the Gautrain Project. If finally endorsed by the government, it is expected to be ready when South Africa hosts the World Cup in 2010.

There is broad agreement that the transport infrastructure in South Africa needs substantial upgrading, and the government is committed to addressing this problem. It has increased the financial resources for transport to approximately ZAR14.3 billion over four years, starting in 2006. Transnet's investments of ZAR40.8 billion and state funding for future private-public partnership agreements of ZAR18.2 billion are expected to add to this total.

Political and Social Context

After an overwhelming victory in the 2004 general elections, the honeymoon period for the African National Congress (ANC) came to an abrupt end in 2005, when the popular Vice-President, Jakob Zuma, was charged with being in a "generally corrupt relationship" with his financial adviser. As a result of these revelations, President Mbeki dismissed Zuma from his position, a move that was unpopular with many members of the ANC. After his dismissal, Zuma was charged with rape in a separate case, which helped to temper the unhappiness over Mbeki's decision. Nonetheless, the "Zuma affair" has made 2005 the most difficult year for the ANC since it came to power in 1994.

In particular, the Zuma affair has brought to the fore the question of who will lead the ANC after President Mbeki's tenure ends in 2009. While Zuma had previously been seen as one of the strongest candidates for this position, the rape and corruption charges have severely weakened his standing. The result is a wide-open selection process that will sorely test ANC unity and thereby potentially threaten its continued dominance of South African politics.

On the other hand, the Zuma affair has enhanced the democratic credibility of South Africa by highlighting the independence of the judiciary branch and demonstrating that even high-profile public officials are not above the law. According to Transparency International, the government's response is a signal of South Africa's maturing democracy and sets an important precedent for the advancement of good governance.

The government is acutely aware that there is growing impatience among many South Africans, especially among the poor majority, regarding the lack of improvement in living standards despite the economic growth of the past decade. President Mbeki is well aware of the importance of improving social services and infrastructure, and he has made this a priority for the rest of his term of office. Nevertheless, protests about poor service delivery, housing and unemployment have been increasing, and observers suggest that some of this frustration may affect the outcomes of the local-government elections planned for March 2006. Some members of civil society are already threatening to boycott the elections.

While the government has made progress in targeting aid to the poorest and most vulnerable, notably through the social-grants scheme described below, poverty has not diminished much since the democratic transition. Indeed, a debate is currently under way on the definition of poverty in South Africa. In 2000, according to the international poverty standards of $1 per day or $2 per day (the equivalent at that time of ZAR87 per month or ZAR174 per month), 11.3 per cent or 34.4 per cent of the population lived in poverty, respectively (South Africa United Nations MDG Report 2005). When the national poverty line of ZAR354 per month per adult is used, however, 57 per cent of the population lived in poverty in 2001. In any case, South Africa remains a very unequal society with a Gini coefficient of 0.59, although the latter drops to 0.35 when transfers are included, as explained below.

One of the government's main tools for addressing extreme poverty is cash transfers, the so-called "social grants". Expenditures on these grants increased 3.7-fold between 1994 and 2004 to ZAR37.1 billion as the number of beneficiaries grew from 2.6 million in 1994 to 7.9 million in 2004. In addition to the social-grants programme, the Expanded Public Works Programme (EPWP), the Agricultural Starter Pack Programme to provide food production start-up support and the Comprehensive Agricultural Support Programme providing post-settlement support to beneficiaries of the Land Reform processes also aim to alleviate poverty.

There is some controversy about the adequacy of the government's anti-poverty programmes. For example, the People's Budget Campaign, a coalition of civil-society organisations, is calling for the introduction of a universal Basic Income Grant of ZAR100 per person per month, indexed to inflation, and a National Health Insurance system. The government will surely resist these proposals, however, given the concerns about the cost of the present social-grants programme and its objective of preserving incentives to work. Overall, it appears that the current system of social grants works well, as demonstrated by the increase in expenditure on basic commodities such as food and fuel, as well as by school attendance in households receiving grants. The South African Social Security Agency, which began operating in April 2005, should increase the impact of social grants further by improving delivery and reducing fraud, which leads to an estimated ZAR1.5 billion in losses per year.

Official unemployment remains very high at 26 per cent but the rate rises to 41 per cent when a broad definition is used. Approximately 2.5 million people are employed in the informal sector (Labour Force Survey, 2005:12). The high level of unemployment is the main source of continued poverty and inequality. In what is clearly a lasting legacy of apartheid, poor households tend to be disconnected from the labour market. In particular, the lack of skills among the poor, due largely to the neglect of education for blacks during apartheid, make them difficult to employ. Only 9 per cent of working-age individuals in the bottom-income decile are employed, compared to 68 per cent in the top decile (United Nations Development Programme [UNDP], Development Bank of Southern Africa [DBSA], Human Sciences research Council of South Africa [HSRC] Development Report, 2005:6).

The EPWP, launched in 2004, seeks to provide public employment for the unskilled, particularly in government infrastructure projects. The EPWP has a target of creating jobs for one million people, with ZAR15 billion of the infrastructure funds allocated to provinces and municipalities earmarked for the EPWP. Unfortunately, the public's high expectations from the programme may be difficult to fulfil, as most of the jobs will be temporary and no more than 200 000 people are likely to be employed at any given time (DBSA Development Report, 2005).

Although more than 95 per cent of both boys and girls between the ages of 7 and 13 are reported to be attending school, school conditions are unfavourable in poorer areas. Some civil-society organisations decry the low level of expenditure in poorer provinces and the resulting inadequate education facilities. Currently, there is a shortage of about 57 000 classrooms (People's Budget: 28). In addition, although public education is funded primarily by taxes, most cash-strapped schools will continue to charge fees as long as there is no clear policy prohibiting the practice (People's Budget: 30). The Department of Education Costs Review found that most schools charge fees of up to ZAR100 a year, a substantial sum for people living in extreme poverty.

Access to water and electricity has been improving steadily since 2000 although there is still some backlog. The proportion of households with access to clean water increased to 85.5 per cent in 2003 from 60 per cent in 1995 and access to sanitation increased to 63 per cent in 2003 from 49 per cent in 1994. Nevertheless, many argue that the current allocation of 6 000 litres of water per household per month is inadequate, as it falls short of the World Health Organisation (WHO) recommendation of 100 litres per person per day. The share of people living in Reconstruction and Development Programme housing rose to 26 per cent in September 2003, but there is also continued backlog in housing.

Both the government and its critics agree that the pace of land redistribution remains too slow. Falling far short of a target of 30 per cent redistribution by 2014, only 3 per cent of land has been redistributed. There was general consensus at the National Land Summit held in July 2005 that relying on voluntary land sales is inadequate and that expropriation should be considered. The government, however, remains reluctant to follow this path for obvious reasons.

About 5 million South Africans are infected with HIV, the largest number in the world in one country. A recent report by the HSRC suggests that the rate of HIV infection may be flattening, with 21.5 per cent of 15- to 49-year-olds being HIV positive at the end of 2003 (UNAIDS 2004 Report on the global AIDS epidemic). The government's approach to HIV/AIDS prevention and treatment is improving, despite the Minister of Health's continued misleading statements about the disease. The 2005 budget allocated ZAR6.6 billion for the national integrated response to cover the health, education and other social-development sectors. Nevertheless, the fact that 77 per cent of the total HIV and AIDS budget are allocated to the provinces as conditional grants is cause for concern, given the provincial authorities' weak implementation capacity. Consequently, the Health Department will have to strengthen its monitoring, evaluation and support mechanisms.

Once again, a scarcity of workers with the proper skills is the largest barrier to a comprehensive treatment of AIDS. By 2009, South Africa will need approximately an additional 3 200 doctors, 2 400 nurses, 765 social workers, 765 dieticians, 112 pharmacists and 2 000 data recorders to fully implement treatment with antiretroviral (ARV) drugs. Migration of health workers to better-paying countries contributes to this shortage. Partly as a result of this latter, ARV therapy reached only 28 786 of the targeted 53 000 in 2004, but increased to an estimated 50 000 individuals in 2005 (South Africa MDG Report). Even with increased access to ARV drugs, however, mortality rates from AIDS are not expected to peak in South Africa until about 2010 (HSRC HIV and AIDS survey).

There are encouraging signs that South Africans are more aware of HIV/AIDS as well as the availability of ARV drugs. Unfortunately, public awareness on prevention is lagging and the public displays a false sense of security regarding their risk of infection. According to a survey by HSRC, half of the people diagnosed as HIV-positive did not think they were at risk of HIV infection. Awareness campaigns must address these misperceptions actively.

Tanzania

key figures

• Land area, thousands of km^2	945
• Population, thousands (2005)	38 329
• GDP per capita, \$ PPP valuation (2005)	597
• Life expectancy (2000-2005)	46
• Illiteracy rate (2005)	19.9

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/242200635331

Tanzania

TANZANIA HAS MADE REMARKABLE improvements in economic management over the last decade which have been rewarded with impressive GDP growth, which reached 6.7 per cent in 2004. Tanzania's impressive growth in 2004 was supported by rising agricultural production associated with good weather conditions. The inflation rate remained below 4.5 per cent at end-June 2005 as lower food prices compensated for higher fuel costs. However, due to insufficient rains in autumn 2005, food prices are expected to increase. The country's export performance continues to improve and, combined with ongoing debt relief initiatives, Tanzania's external debt is sustainable, at least over the medium term. The country also recorded a considerable increase in its gross official reserves, which amounted to the equivalent of about 8 months of imports in 2004, up from an average of 6.7 months of imports between 1999 and 2003. The 2005 elections were conducted mostly peacefully despite some difficulties in Zanzibar and, more particularly, the island of Pemba, and the incumbent party presidential candidate Jakaya Kikwete was elected. Despite this political stability and macroeconomic progress, the business environment remains quite poor and higher growth has yet to translate into significantly improved living standards and a reduction in poverty.

Despite the persistence of a poor business environment, there have been positive impacts on poverty from sustained growth and political stability.

Following the second review of implementation of Tanzania's Poverty Reduction Strategy (PRS) in 2004, the government established a five-year National Strategy for Growth and Reduction of Poverty (NSGRP) in 2005. The NSGRP improves upon the PRS through adoption of an outcome-based approach focusing on three clusters: *a)* growth and reduction of poverty; *b)* improvement of quality of life and social well-being; and *c)* good governance and accountability in the public sector. Policy design and government initiatives are expected to be organised with respect to their contribution to the achievement of these and other related objectives. In addition to the NSGRP, the government of Tanzania also drew up the "Tanzania Mini-Tiger Plan 2020" as a vehicle to achieve the objectives of the Tanzania Development Vision 2025. The mini-tiger plan is inspired by the growth

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)

Source: IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

experiences of South East Asian countries. It is expected to facilitate the creation of a favourable climate for both domestic and foreign investment through the establishment and promotion of Special Economic Zones (SEZ), a revised regulatory framework and a supportive legal framework.

Recent Economic Developments

Real growth of gross domestic product (GDP) reached 6.7 per cent in 2004, a remarkable improvement on the average 5.5 per cent of 1999-2003 and 3.3 per cent of 1994-98. The authorities anticipate a GDP growth rate of 6.9 per cent in 2005, and have set a target of 8-10 per cent in the medium term. Given the strong agricultural growth in 2004, the share of agriculture in GDP increased from 45 per cent in 2003 to 46.2 per cent in 2004. The share of industry in GDP also increased slightly from 16.6 per cent in 2003 to 16.7 per cent in 2004, largely due to very strong growth in mining. The relatively weaker growth in the service sector implied that the share of services in GDP decreased from 38.4 per cent in 2003 to 37.1 per cent in 2004 (see Figure 2 for further details).

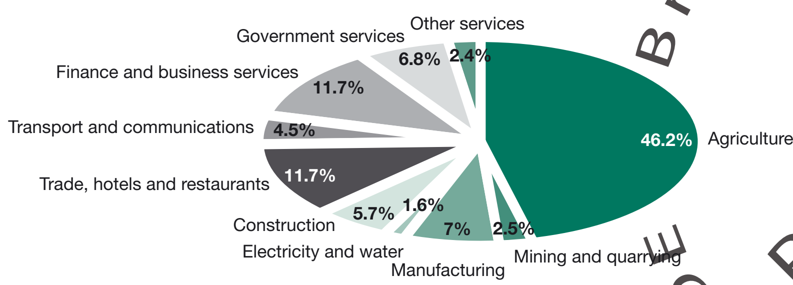
Agricultural output grew more than 10 per cent in real terms in 2004, compared to an average 4.4 per cent between 1999 and 2003, largely due to good weather and recent investment. Given the large share of agriculture in GDP, agriculture contributed 2.7 per cent of total 6.7 per cent growth in 2004(see Figure 3). Agricultural growth is projected to improve further in the medium term as the government continues to implement various agricultural support services. Nonetheless, food security remains a critical issue. Part of the problem emanates from poor distribution channels, particularly in rural areas, which impede transport of food to areas in need. Furthermore, the agricultural sector remains constrained by dependence on rainfall (even though considerable investments have been made in drought resistant crops), the small size of farms and inadequate use of technology. The government continues to support sustainable growth in the agricultural sector through investment promotion, fertiliser transportation subsidies in the main cereals producing regions, increased funding for agricultural research and extension services, and the strengthening and rationalisation of the export credit guarantee scheme. In 2004, Tanzania also began implementing the Comprehensive Africa Agriculture Development Programme (CAADP). An increase in government investment in rural transport infrastructure is also envisaged as part of the strategy to improve distribution channels and agricultural marketing systems.

The industrial sector's rapid growth is mainly due to strong performances in manufacturing, construction and especially mining and quarrying. Mining and quarrying output grew at about 20 per cent in real terms in 2004. Hence, even though its share in GDP remains small, it contributed 0.5 per cent to Tanzania's growth in 2004. As in previous years, real growth in construction remained at around 10 per cent, while manufacturing grew at about 5 per cent. The growth of the electricity and water sub-sectors also held steady at around 5 per cent. Manufacturing and construction each contributed 0.6 per cent to Tanzania's growth in 2004.

In the services sector, the trade, hotels and restaurants sub-sector continued to exhibit fastest growth in 2004 at about 8 per cent, followed by transportation and communications at about 6 per cent despite the rise in fuel prices. Financial, business, and government services were the weakest growing services sub-sectors, with growth of about 4 per cent each in 2004. Given the 11.7 per cent share of trade, hotels and restaurants in GDP, this sub-sector contributed 0.9 to Tanzania's growth. Preliminary estimates for 2005 indicate continued healthy growth in the services sector, with the strongest growth again in the trade, hotels and restaurants sub-sector.

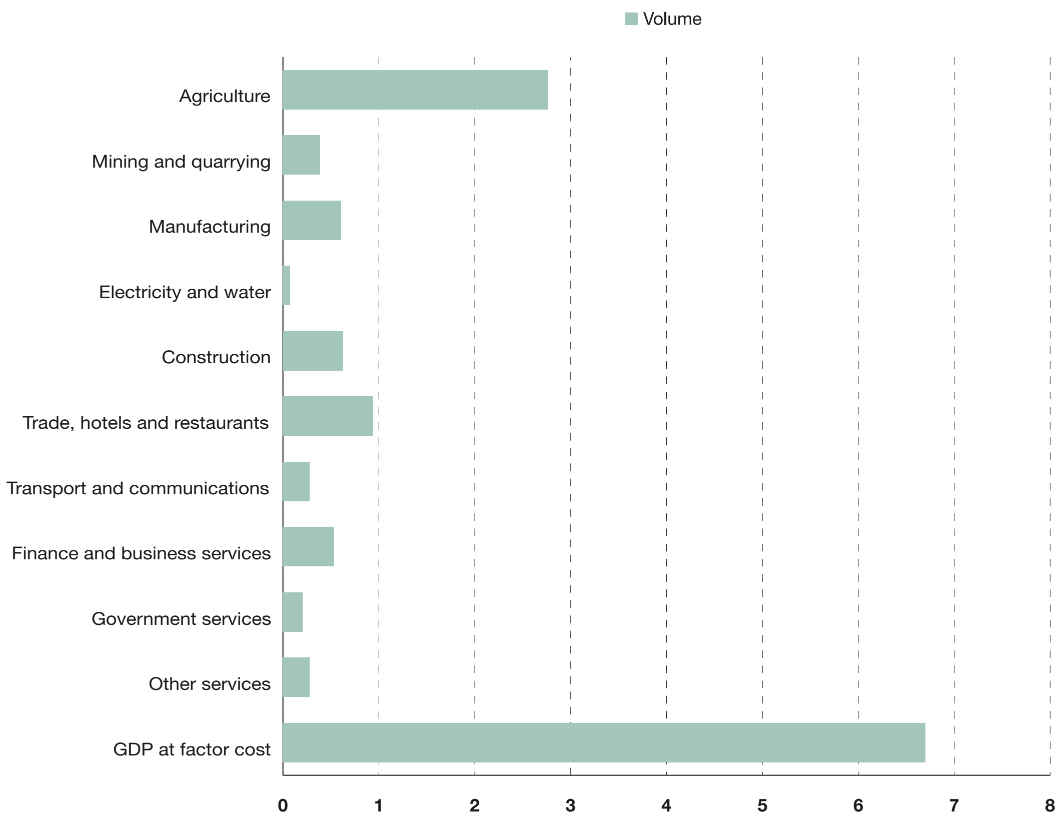
These sectoral developments led to increased growth in private consumption and also stimulated higher growth in private investment in 2004. GDP growth was also supported by an increase in public spending. The forecast of GDP growth for 2007 is based on the assumption that the high growth rate of private investment will continue.

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Author's estimates based on domestic authorities' data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Author's estimates based on domestic authorities' data.

The expenditure components of GDP reveal an increase in the shares of both private and public consumption and a decrease in the shares of investment and savings. The share of private consumption in GDP increased from 80.8 per cent in 2003 to 81.7 per cent in 2004 (partly due to increased expenditure on health and education), while the share of public consumption increased from 6.7 per cent in 2003 to 6.9 per cent in 2004. The share of investment in GDP declined slightly from 21.1 per cent in 2003 to 21 per cent in 2004 (see Table 1), while the share of gross domestic savings declined from 9.7 per cent to 7.9 per cent.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**14.9**	**19.2**	**21.1**	**21.0**	**22.4**	**23.4**	**24.4**
Public	2.9	7.6	8.4	7.7	8.2	8.5	9.1
Private	12.0	11.6	12.8	13.3	14.2	14.8	15.3
Consumption	**94.6**	**87.1**	**87.5**	**88.6**	**89.7**	**90.3**	**89.7**
Public	8.8	6.4	6.7	6.9	7.4	7.6	7.8
Private	85.8	80.7	80.8	81.7	82.2	82.6	81.9
External sector	**-9.5**	**-6.2**	**-8.6**	**-9.7**	**-12.1**	**-13.6**	**-14.1**
Exports	16.2	16.1	17.7	19.2	19.7	19.1	18.9
Imports	-25.7	-22.3	-26.3	-28.9	-31.8	-32.7	-32.9

Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Macroeconomic Policy

Fiscal Policy

Fiscal policies for 2004/05 focused on adequate revenue mobilisation and sound expenditure management with the aim of promoting economic growth and poverty reduction. Although the fiscal deficit rose in 2004/05, the increase was smaller than anticipated. The overall fiscal deficit before grants is estimated at 11.2 per cent of GDP, below the 12.5 per cent of GDP projected, thanks to improved domestic revenue collection and expenditure restraint. In 2005/06, the deficit before grants is projected to reach 11.8 per cent of GDP. After grants, the overall deficit as a ratio of GDP increased from about 3.5 per cent in 2003/04 to 4.8 per cent in 2004/05 and is projected to grow further to around 5 per cent in 2005/06. The widening deficit in 2005/06 reflects increasing expenditure, especially for poverty reduction measures and the national elections of November and December 2005.

As a result of ongoing reforms to improve tax administration, the government exceeded its goal for domestic revenue collection. Domestic revenue in 2004/05 increased by about 22 per cent over 2003/04 to nearly 14 per cent of GDP, slightly more than programmed. Most of the increase in revenue is attributed to improvements in value added tax (VAT) and income tax receipts. VAT collection increased following the decision to raise the threshold for VAT registered companies from annual turnover totalling TZS20 million (about $20 000) to TZS40 million (about $40 000). This reduced the number of VAT payers but made revenue collection more efficient. Similar improvements in income tax collection efficiency

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Total revenue and grants[b]	**16.2**	**16.1**	**18.3**	**18.8**	**19.7**	**20.4**	**21.0**
Tax revenue	11.9	10.6	11.0	11.7	12.2	12.5	12.6
Grants	2.7	4.4	6.2	6.1	6.4	6.8	7.3
Total expenditure and net lending[b]	**17.3**	**17.2**	**19.9**	**22.2**	**24.5**	**25.5**	**26.1**
Current expenditure	14.2	13.2	14.9	16.6	18.1	18.8	19.0
Excluding interest	*9.4*	*11.9*	*13.9*	*15.7*	*16.9*	*17.7*	*18.0*
Wages and salaries	5.6	3.9	4.0	4.0	4.1	4.0	4.0
Interest	4.9	1.4	1.0	0.9	1.2	1.1	1.0
Capital expenditure	2.9	3.3	5.0	5.6	6.4	6.7	7.1
Primary balance	**3.9**	**0.3**	**-0.6**	**-2.5**	**-3.6**	**-3.9**	**-4.1**
Overall balance	**-1.0**	**-1.1**	**-1.6**	**-3.5**	**-4.8**	**-5.0**	**-5.1**

a: Fiscal year begins 1 July.
b: Only major items are reported.
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations

were also recorded following the elimination of tax evasion loopholes through implementation of the Income Tax Act of 2004.

Expenditure management in fiscal year 2004/05 was strengthened by the government's observance of cash budgeting, the new Public Procurement Act of 2004 (which provides for decentralised procurement under a new regulatory authority but has yet to be fully brought into effect) and the effective introduction of the Integrated Financial Management System (IFMS) which aims to improve control and accountability of public expenditures in ministries, districts and agencies. Recurrent expenditures were in line with estimates while development expenditures exceeded the programmed amount by about 5.5 per cent. The government continued to ensure that the full allocation for priority expenditures was made at the beginning of each quarter.

Consequent to the adoption of the National Strategy for Growth and Reduction of Poverty (NSGRP), the government envisages further increases in expenditure, taking it up to 25.5 per cent of GDP in 2005/06 from 24.5 per cent in 2004/05. The increased spending is mainly for priority sectors and infrastructure and the government expects to finance it through increases in domestic revenue collection and foreign loans and grants. Recurrent expenditure is projected to rise by 0.5 per cent of GDP, mainly on account of wage increases designed to boost capacity in the civil service under the Public Service Management Reform Programme (PSMRP). Development expenditure is expected to increase by 1.2 per cent of GDP, mainly reflecting higher outlays for infrastructure. The government plans to increase domestic revenues to the equivalent of 13.5 per cent of GDP in 2005/06, which would imply an increase of 16 per cent compared to 2004/05. This increase is expected to come from the implementation of the new income tax provisions, improved tax administration, the graduation of tax-exempted companies into the tax net and higher revenue from new natural gas-related projects.

For the foreseeable future, foreign aid will be necessary to fund poverty reduction programmes and to achieve Millennium Development Goals (MDGs). Grants and concessionary lending are expected to finance 46 per cent of government expenditure in 2005/06, down only slightly from 45 per cent in 2004/05, and 46 per cent in 2003/04. In 2005/06, $561 million in aid is expected for budget support and about $855 million for development projects. Although it represents a slightly smaller proportion of expenditure, this level of grants and loans represents an increase in absolute terms of close to $167 million (13 per cent) over fiscal year 2004/05.

The government's short- and medium-term fiscal policy continues to aim at increased domestic revenue collection, reduced aid dependency, higher expenditure for poverty reduction and long-term debt sustainability. To this end, the government will continue to strengthen tax administration, streamline customs procedures and improve public expenditure management. Under current projections, the government will have a financing gap of about 12.5 per cent of GDP, which is expected to be covered largely by grants and loans from Tanzania's donors. Any remaining expenditure gap is to be financed by drawing on government reserves at the Bank of Tanzania (BOT) and the sale of government securities. In order to avoid crowding out private sector investment, the government's net domestic borrowing is to be limited to 1.1 per cent of GDP.

Monetary Policy

The primary objective of the BOT is price stability as a means to improve overall economic performance. For this purpose, the BOT sets an annual inflation target at the beginning of every fiscal year. Monetary policy implementation during 2004/05 has shown considerable progress despite the challenge confronting the BOT in managing the liquidity associated with increased inflows of official development assistance. The bank's efforts to hold liquidity down to a desirable level was complicated by the fact that private demand for Treasury securities was less than expected in 2004/2005, while private bank intermediation increased; thus, liquidity grew faster than the target set by the BOT over most of the period. The BOT managed, however, to reach the end-June 2005 reserve money target by redeeming government securities, purchasing foreign exchange and other measures. Consequently, inflation remained largely under control.

The government adopted new consumer price indices in 2004 after the 2001 Household Budget Survey revealed that consumption patterns had changed considerably since the 1991 survey. On the basis of the new consumption basket, the inflation rate has remained below 4.5 per cent, as was the case in 2003/04, even though it increased slightly from 4.1 per cent in July 2004 to 4.2 per cent in June 2005. Despite the hike in fuel prices, non-food inflation declined from 3.1 per cent in 2004 to about 2.5 per cent in June 2005, mainly on account of a decline in the prices of other non-food items. Inflation is targeted to be 4 per cent by end-June 2006.

Reflecting the impact of monetary policy tightening, the interest rates on Treasury bills rose during most of 2004/05, reaching an average of 9.3 per cent in June 2005 from 8.4 per cent in July 2004. The increase in Treasury bill yield and higher demand for credit in the private sector also led to an increase in lending rates to 15 per cent from 14 per cent in 2003/04, while the deposit rate increased to 4.5 per cent from 3.8 per cent. As a result, the interest rate spread between lending and deposit rates edged up from 10.2 percentage points in 2003/04 to 10.5 percentage points in 2004/05.

The financial system is liquid, well-capitalised, and profitable. It has solid asset quality and is also more resilient to shocks following additional restructuring efforts over the last two years. Credit to the private sector also continued to show robust expansion, increasing by about 33 per cent during 2004/05, and has been concentrated in the high growth sectors of the economy. To a large extent, this development is the result of government efforts to remove impediments to bank lending, an improved business environment and increased competition among banks.

The financial sector remains small, even when compared to other sub-Saharan African countries. A large portion of the economy continues to have little access to formal credit. Consequently, the authorities intend to accelerate financial sector reforms during 2005/06 and in the medium term through implementation of a comprehensive second generation Financial Sector Reform Programme (FSRP). This programme builds on the recommendations of the 2004 Financial Sector Assessment Programme (FSAP) which aims to enhance the contribution of the financial sector to investment and economic growth.

External Position

Imports and exports both increased substantially in 2004, rising 26.5 per cent and 25.5 per cent respectively in nominal local currency terms. Imports increased in all major categories, with oil import values increasing due to higher world prices. Preliminary estimates for 2005 suggest that food imports are likely to be lower in 2005, mainly on account of improvements in Tanzania's crop harvests. The current account deficit is projected to widen somewhat in 2005 due to: *a)* continued increases in oil prices; *b)* large imports of intermediate and capital goods (mostly for infrastructure projects); and *c)* increased fertiliser imports, reflecting government subsidies for transportation of the latter.

Thanks to ongoing export promotion, the share of Tanzanian exports of goods and services in GDP recorded further improvement in 2004, reaching 19.2 per cent, compared to 17.7 per cent in 2003. Exports of goods increased from 11 per cent of GDP in 2003 to 11.8 per cent in 2004. The share of traditional exports in total merchandise exports increased to 21.7 per cent in 2004 from 19.5 per cent in 2003. Tanzania's main traditional exports are coffee, cotton, tea, cashew nuts, cloves, sisal and tobacco. The share of gold exports (the main non-traditional export) in total exports increased from 44.6 per cent in 2003 to 47.3 per cent in 2004. Export growth is expected to rise further in 2005 with minerals and manufacturing exports remaining strong, while traditional exports are expected to benefit from improved roads, greater access to inputs and extension services, and favourable commodity prices. Receipts from tourism also rose during 2004.

The current account deficit increased marginally from 3.7 per cent of GDP in 2003 to 3.8 per cent of GDP in 2004. Though the capital account balance was

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

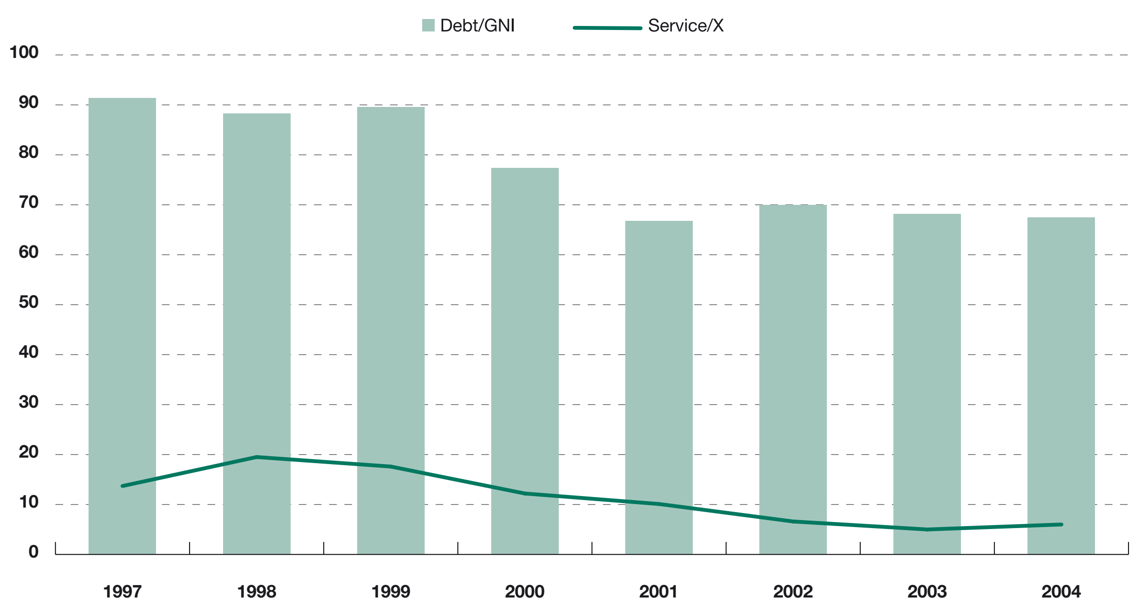
	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-5.1	-6.2	-7.8	-8.4	-10.4	-11.6	-11.8
Exports of goods (f.o.b.)	9.8	9.2	11.0	11.8	12.3	11.8	11.5
Imports of goods (f.o.b.)	-14.9	-15.5	-18.8	-20.2	-22.7	-23.4	-23.4
Services	-4.1	-0.5	-0.8	-0.8			
Factor income	-1.6	-0.2	-0.4	-0.4			
Current transfers	5.6	4.3	5.3	5.7			
Current account balance	**-5.3**	**-2.6**	**-3.7**	**-3.8**			

Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

positive, as usual, it was not large enough to offset the deficit in the current account, resulting in an overall balance of payments deficit of $98.1 million (equivalent to slightly less than 1 per cent of GDP), compared to a surplus of $70 million in 2003. The Tanzanian shilling continued to depreciate against the dollar during 2005, although exchange rate volatility was relatively low. As a result of an increase in official development assistance and debt relief, the foreign exchange reserve position is expected to improve. At end-June 2005, gross official reserves were $2 137 million, equivalent to seven months of imports of goods and services and up from $1 878 million at end-June 2004. The government objective for 2005/06 is to maintain reserves at a level equivalent to at least seven months of imports.

Tanzania enjoys relatively high inflows of foreign direct investment (FDI), although FDI decreased slightly from 27.7 per cent of gross fixed capital formation (GFCF) in 2003 to 21.9 per cent in 2004. Tanzania continues to have one of the highest stocks of FDI to GDP ratios among oil-importing African countries. FDI flows to Tanzania are expected to remain high, especially as simpler and more transparent FDI regulations have been adopted recently.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

The government continued negotiations with both Paris and non-Paris Club bilateral creditors during 2004/05 for debt relief on terms comparable to those offered under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. As of end-June 2005, total debt relief to the government from Paris Club creditors stood at $2.5 billion. Non-Paris Club creditors hold a small share of Tanzania's debt; as of June 2005 among non-Paris Club creditors only Bulgaria, India and Kuwait had offered debt relief to Tanzania in line with the HIPC framework. In any case, due to the G8 debt relief initiative of July 2005, which authorised 100 per cent cancellation of Tanzania's debt to the African Development Fund (AfDF), the International Development Association (IDA), and the International Monetary Fund (IMF), Tanzania's debt sustainability is expected to improve significantly. The G8 debt relief initiative is expected to entail a cancellation of Tanzanian debt worth $4.8 billion, which together with the debt relief provided under the enhanced HIPC initiative would cut Tanzania's total external debt by about 90 per cent.

Structural Issues

Recent Developments

The government continues to implement measures aimed at further reducing public debt under the Public Financial Management Reform Programme (PFMRP). The National Debt Management Committee (NDMC) adopted the national capacity building plan, which includes enhancing debt management capacity, and the government has distributed to all ministries and independent departments the amended Government Loans, Guarantees and Grants Act together with a circular clarifying the key amendments contained in the act and their mode of application. Similarly the new Procurement Law of 2004, which decentralises the government tendering process, has been widely distributed.

Tanzania continues to make progress in the privatisation and restructuring of public enterprises. The government is considering options for restructuring the Tanzanian electricity company (TANESCO) with the objective of increasing its operational efficiency and reducing its debts to sustainable levels. Privatisation of the national water utility, which has been underway since the second half of 1990s, however, has been slow. For two years, a foreign-controlled company Biwater managed the operations of the national water utility through a leasing arrangement with the government. The government terminated the contract in May 2005, however, due to Biwater's failure to improve water services. Meanwhile, privatisation of the National Microfinance Bank (NMB) is progressing well. In August 2005, the government approved the sale of 49 per cent of its shares in the NMB to a consortium led by the Cooperative Centrale Raiffeisen-Boerenleenbank B. A. (Rabobank) of the Netherlands. The consortium also includes three local institutions, which were allocated 24 per cent of the 49 per cent of shares being sold. During 2005/06 the government intends to carry out more privatisations, including those of the remaining commercial units of the Tanzania Harbours Authority, the restructured TANESCO, Tanzania Zambia Railways (TAZARA), the National Insurance Corporation (NIC), the publicly owned cashew nut factories and two publicly owned farms.

The recently improved performance of the manufacturing sector is largely attributable to the implementation of various structural reforms, including privatisation, management contracts with experienced foreign investors, and investment incentives, notably for processed food, wood products and building materials. Implementation of the recently adopted Micro, Small and Medium Enterprises (MSME) policy has also led to more start-ups of small enterprises, thereby contributing to efforts to reduce poverty through increased production and employment. During 2005/06, the government plans to direct even more of its efforts towards establishing and strengthening industrial production, particularly among MSMEs, with the aim of improving product quality, and increasing income and employment.

Despite these efforts, the overall business climate remains poor in Tanzania. The World Bank's *Doing Business 2006* report ranks Tanzania 140th of a total of 155 countries. While Tanzania's ranking is comparable to many other countries with a similar income level, it is much worse than that of Kenya (68th) and Uganda (72nd). Among the 10 topics covered in the World Bank report, Tanzania fares most poorly with regard to "Dealing with Licenses". According to the report, in addition to being very costly, it takes an average of 26 steps and 313 days to complete the process of obtaining a business licence in Tanzania.

Transport Infrastructure

Although Tanzania has recently received funds from the ADF and IDA to finance the implementation of the Short-Term Action Plan (STAP) for infrastructure development, Tanzania's underdeveloped transport network remains a key structural weakness. Nearly 80 per cent of the population still live in rural areas and are engaged in agricultural activities but rural areas are not adequately served by the transport system. The country's transport system is not only essential for integrating domestic markets, it also serves to handle transit traffic for Tanzania's landlocked neighbours including Burundi, Malawi, Rwanda, Uganda and Zambia.

The country's road network is estimated to be 85 000 km long and includes trunk, regional, district, feeder and urban roads. Urban, district and feeder roads, which are estimated to extend over 56 108 km, are managed by the Urban and Rural Local Government Authorities (LGA), while regional and trunk roads, which comprise an estimated 28 892 km are managed by TANROADS. Other road networks are managed by the Tanzania Association of National Parks (TANAPA) and private companies which own large agricultural estates. Road safety remains a major problem due to the poor maintenance of vehicles, overloading, poor driving and variable enforcement of axle-load limits.

Tanzania's railways system network has a length of 3 676 km of which Tanzania Railways Corporation (TRC) operates 2 706 km and Tanzania Zambia Railway Authority (TAZARA) 970 km. However, TAZARA does not interconnect with TRC due to the difference in grid width. TRC is one of the country's largest infrastructure enterprises, providing transportation for passengers and goods within the country and for transit traffic to the land-locked countries of Burundi, Democratic Republic of Congo, Malawi, Rwanda, Uganda and Zambia. Given Tanzania's location, marine transport is of particular importance. Tanzania has three major ports along the Indian Ocean: Dar es Salaam, Tanga and Mtwara, as well as five smaller sea ports. There are also lake ports, the most important of which are Mwanza, Kemondo Bay, Bukoba and Musoma on Lake Victoria; Kigoma and Kasanga on Lake Tanganyika; and Itungi and Mbamba Bay ports on Lake Nyasa.

The importance of air transport has grown considerably in recent years. At the moment, Tanzania has a total of 368 aerodromes, which are owned, managed and operated by several entities. The Tanzania Airports Authority (TAA) owns and manages 62 airports in the country, though it has leased one of its three international airports (the Kilimanjaro International Airport) to the Kilimanjaro Airports Development Company. There are also a number of privately-operated airports. Tanzania adopted a policy of gradual liberalisation of the air transport system in 1992. Any air transport entity which meets the technical requirements for obtaining an air operator certificate is eligible for a license and registration. The liberalisation of Tanzania's air transport has created an enabling environment for its growth, though Air Tanzania continues to face financial problems. The number of registered air operators has increased and the aviation industry has been steadily growing at an average rate of 9 per cent per year. International scheduled air services in the country have also increased. As of December 2004, there were 16 foreign airlines providing international scheduled services.

The transport sector in Tanzania is subject to regulation by numerous government agencies, including four lead ministries, with other ministries also involved. The lead ministries are the Ministry of Communication and Transport (MoCT), the Ministry of Works, the President's Office for Regional Administration and Local Government, and the Ministry of Home

Affairs[1]. The MoCT is responsible for transport development policy and its implementation, as well as for setting strategic goals for the sector's development. The ministry is also responsible for putting in place laws and regulations for the transport sector, the provision of inter-sectoral co-ordination, the design of strategies for private sector involvement and the provision of mechanisms for the representation of stakeholder views. The Ministry of Works is responsible for the construction and maintenance of trunk and regional road infrastructure. The President's Office Regional Administration and Local Governments is responsible for planning the development and maintenance of rural and urban roads. The Ministry of Home Affairs is responsible for law enforcement, which includes the implementation of road traffic regulations and the enforcement of safety regulations in the sector.

Operational agencies in the transport sector are diverse and include both public and private operators. The publicly owned Tanzania Ports Authority (TPA) is responsible for both coastal and inland ports. The Tanzania Airport Authority (TAA) is a semi-autonomous agency of the Ministry of Communication and Transport with a mandate to manage Tanzania's mainland airports, oversee competition, undertake airport development, maintenance and expansion, and manage concession agreements. The Tanzania Government Flights Agency (TGFA) is responsible for the provision of air transport services for government officials locally and internationally. The Tanzania National Roads Agency (TANROADS) manages, develops and maintains trunk and regional roads on the mainland and is also responsible for implementing the Road Sector Development Plan of the Ministry of Works. In 2000, the government decided to create independent multi-sectoral regulatory agencies to regulate rail, land and maritime transportation. Subsequently, in 2001, the Surface and Marine Transport Regulatory Authority (SUMATRA) was established by act of parliament. SUMATRA is responsible for the licensing of operators, the establishment of standards and operational rules, the regulation of rates and charges and the monitoring of performance in the sub-sector. The Tanzania Civil Aviation Authority (TCAA), established in 2003, regulates air transport and is responsible for safety and economic regulations, as well as the provision of air navigation services.

Financing constraints, however, continue to limit development of transport infrastructure. After ensuring that administrative costs of ministries and related regulatory agencies are met, the budget allocated for development/capital spending has always fallen short of needs, including that for the rehabilitation and maintenance of existing infrastructure. Estimates by the Ministry of Communication and Transport show that about 70 per cent of financing for infrastructure is provided by international donors. Given the objectives of enhancing domestic revenue mobilisation and reducing donor dependency, there are initiatives to improve the resource envelope available for transport infrastructure development. The government envisages instigating user fees, earmarked as much as possible for the financing of public investment in the sector. In order to improve co-ordination and accelerate development of the transport sector, the Ministry of Communication and Transport has formulated a ten-year Transport Sector Investment Programme (TSIP). The TSIP aims to achieve financial sustainability for the sector and envisages investment growth of about 12 per cent per year.

The government's overall policy in the transport sector over the last decade has been one of steady deregulation. Trade liberalisation and increased public spending on road construction leading to improved road conditions have increased the level of competition by transport service providers. Even though the Transport Sector Recovery Programme (TSRP) was adopted in 1987, very little money was allocated to infrastructure

1. Following the election of Jakaya Kikwete as President of Tanzania, some changes have occurred in the organisational structure of Tanzania's ministries. For example, the Ministry of Works and the Ministry of Communication and Transport have been merged to form one Ministry of Infrastructure. The President's Office Regional Administration and Local Governments is now under the Prime Minister's Office. The description here follows the structure and names of ministries before their re-organisation.

development and maintenance, which led to a backlog of maintenance, particularly for road and railway networks. Government investment in the transport sector started to increase in the 1990s. Various projects continued to be implemented in the transport sector, including the TSRP, which led to formulation and implementation of the Integrated Road Project (IRP), the Railways Restructuring Project (RRP), the Port Modernization Project (PMP), and TAZARA's ten-year development programme. The railways and port projects were implemented within the first half of 1990s, while the IRP was implemented in two phases with effective closure in June 2004. The increase in investments has facilitated stronger growth of transportation services. Growth of transport and communication activities increased from 1.1 per cent in 1996 to about 10 per cent in 2004.

Privatisation and concessioning is ongoing in surface, maritime and air transport. Private operators are most strongly represented in the road sub-sector, mostly through transport associations. With regard to Tanzania Railways Corporation (TRC), increased competition from road transport, following recent rehabilitations and construction of roads network, as well as growth in the number of private road carriers, has eroded TRC's market share considerably. Furthermore, the TRC was forced to stop passenger services between Dar es Salaam and Moshi owing to the inadequacy of its fleet. The TRC's transit traffic has also been affected by alternative routings, notably through the ports of Mombasa, Nacala, Beira and Maputo. The publicly owned TRC has been undergoing restructuring since the late 1990s, when part of its services were leased or contracted out. In 1997, the TRC's marine transport services were split off as the Marine Services Company and given a performance contract with the government. In May 2001, the government made a decision to restructure the TRC to allow a vertically integrated concession to a private rail operator. In 2005, the government awarded an Indian consortium a concession to manage the TRC. The concession will include operation of the rolling stock and a provision of $33 million for infrastructure rehabilitation but the government will retain ownership of the infrastructure assets of the corporation. The final takeover of the corporation's operations by the consortium was due to be approved by the cabinet in early 2006. While TAZARA's railway network is in better condition than the TRC's, TAZARA also suffers from infrastructure problems and the obsolescence of its wagons and trains. It, too, is being considered for privatisation by concession.

Political and Social Context

Although there was some political unrest associated with the October 30 elections in Zanzibar and the December 14 elections on the mainland, Tanzania remains one of the most politically stable countries in Africa. While Zanzibar and Pemba remain a potential source of political unrest, the new president expressed his desire for reconciliation. In line with the PRS and the National Anti-Corruption Strategy and Action Plan (NACSAP) for 2003-05, the government pursued its efforts to promote good governance in the public service, strengthen the judicial system and curb corruption. The government is currently reviewing the anti-corruption law, which is expected to be approved by parliament in April 2006. The revised law should give greater operational autonomy to the Prevention of Corruption Bureau (PCB) in investigating cases related to corruption, as mandated by the country's obligations under the UN Convention Against Corruption, the African Union Convention on Preventing and Combating Corruption, and the SADC Protocol Against Corruption. Measures to improve accountability in the use of public funds and to strengthen internal auditing and service delivery were validated by perceptions of a reduction in corruption. A corruption survey conducted by the World Bank in 2004 ranked Tanzania the best performer among sub-Saharan African countries in the period 1966-2004. Tanzania registered remarkable progress in the three measured indicators of good governance namely: voice and accountability, which measures political civil and human rights; governance effectiveness, which measures bureaucracy and social service delivery; and corruption control, which measures the capacity of governments to reduce corruption at all levels. Previously established specialised government agencies, such as the Ethics

Secretariat, the Commission of Human Rights and Good Governance, and the Prevention of Corruption Bureau (PCB), continue to report quarterly on matters brought to their attention. The government also provided the Prevention of Corruption Bureau with more power for searching, arresting, investigating and prosecuting corruption allegations. As part of efforts to decentralise PCB activities, the government prepared guidelines for the plan of action for implementation of the National Anti-Corruption Strategy for 2005/06. In July 2004, Tanzania also signed a memorandum of understanding to join the African Peer Review Mechanism. However, the implementation of local government reform programmes continues to be slow.

In 2005, the United Nations Development Programme (UNDP) ranked Tanzania 127th out of 177 countries in its Gender Development Index (GDI) and 42nd out of 80 countries for gender empowerment on the basis of women's participation in the economy and political decision-making and their control of economic resources. Tanzania fares relatively well compared to its neighbours on the GDI, although further improvements are still needed. Evaluation of implementation of recommendations of the Beijing Platform for Action shows that Tanzania has made significant achievements in mainstreaming gender issues in various national policies. Efforts to mainstream gender in development led to amendment of the national constitution to increase women's representation in the parliament. The number of women in parliament increased from 17.5 per cent in 1995 and 21.4 per cent in 2003 to 22.5 per cent in 2004. The government also continued with a review of electoral laws aimed at achieving a 30 per cent representation of women in parliament. Women's representation in leadership positions at local government level also increased from 25 per cent in 1995 to about 33 per cent in 2004. The female adult literacy rate as a percentage of the male rate is estimated at 80 per cent while the female/male ratio participation in economic activities is estimated at 93 per cent.

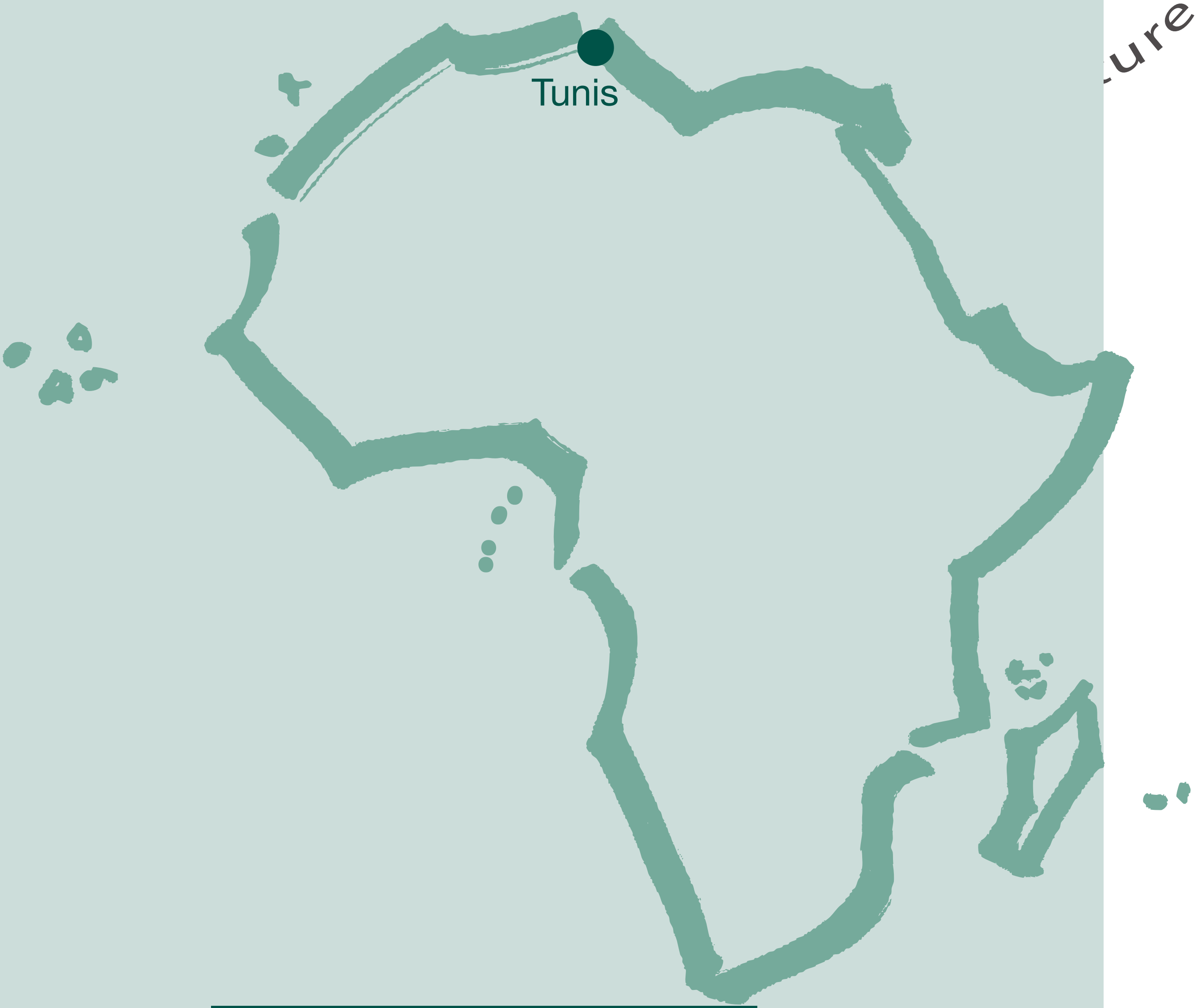
Despite progress in macroeconomic stability and in some social indicators, Tanzania remains one of the poorest countries in the world with per capita GDP in 2003 of about $287. Tanzania's ranking in the United Nations Development Programme (UNDP) Human Development Index (HDI) has deteriorated since 2001, falling from 140th position out of 162 in 2001 to 164th out of 177 in 2003. Progress in poverty reduction in areas outside Dar es Salaam has been particularly slow.

Due to HIV/AIDS and malaria (the two most deadly diseases in Tanzania), life expectancy at birth dropped from 50 years in 1990 to 43 years in 2002 but increased again to 47 years in 2004. The recent increase in life expectancy may be partly attributable to a decline in HIV/AIDS prevalence following implementation of various control initiatives. A survey conducted by the National Bureau of Statistics in collaboration with the Tanzania Commission for AIDS in 2003/04 indicates a slight decline in the HIV/AIDS adult prevalence rate from 8.8 per cent in 2003 to 7 per cent in 2004, although the rate among women remained higher than among men. The government continues to fight the spread of HIV/AIDS through implementation of the National Multi-Sectoral Strategic Framework (NMSF), which intends to address the HIV/AIDS threat in a comprehensive manner. To facilitate the exercise, all ministries were allocated funds under the Medium Term Expenditure Framework in 2004/05 for HIV/AIDS prevention activities.

In 2005-06, Tanzania started implementation of the new five-year National Strategy for Growth and Reduction of Poverty (NSGRP), which adopts an outcome-based approach focusing on growth, reduction of income poverty, improved quality of life and social well-being, and good governance and accountability. As the NSGRP aims to raise the incomes of the poor and to cut infant, child and maternal mortality, particularly through the prevention and treatment of malaria, equitable access to health care is viewed as essential. Inadequate financing, infrastructure and health service accessibility, as well as human and logistical shortcomings, continue, however, to limit improvement in health outcomes. It is estimated that the proportion of births attended by skilled medical personnel continued to decline over the last decade and that about 90 per cent of all child deaths in the country are caused by preventable diseases, including malaria, pneumonia, diarrhoea, malnutrition and complications arising from low birth weight and HIV/AIDS.

Tanzania is in the third year of its Primary Education Development Plan (PEDP) 2002 - 2006. According to the Ministry of Education and Culture's (MoEC's) basic education statistics, the gross enrolment ratio for primary education increased from 99 per cent in 2002 to 105.3 per cent in 2003 and 106.3 per cent in 2004. Similarly, the net enrolment rate increased from 81 per cent in 2002 to 89 per cent in 2003 and 90.5 per cent in 2004. The gap in primary school enrolment between boys and girls also declined during the year: primary school enrolment by sex in 2004 was almost identical (49.9 per cent girls and 50.1 per cent boys). It is anticipated that the gender enrolment gap will disappear in the next few years. Despite the improvement in enrolment ratios, the transition rate from primary to secondary schools, estimated at one third of all pupils on the mainland, is still very low. The government is continuing with its efforts to reinforce the recruitment and training of teachers to keep pace with an increase in student enrolments. In 2004, however, the increase in teachers was insufficient to keep pace with enrolments so that the average teacher-pupil ratio deteriorated slightly from 1:57 in 2003 to 1:58 in 2004. During 2004, the government also started implementation of a five-year Secondary Education Development Plan (SEDP), which aims to improve access to and the quality of secondary education.

Tunisia

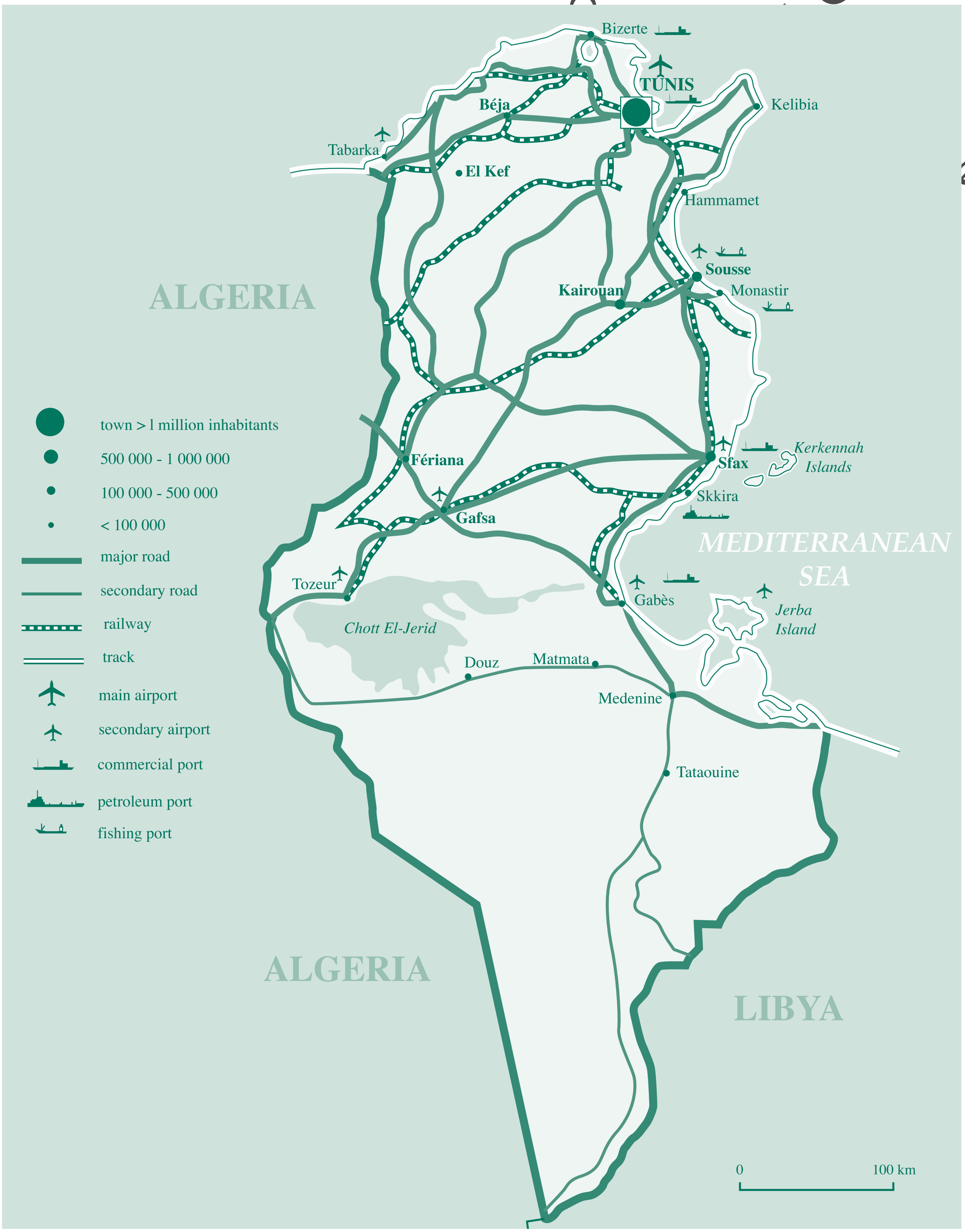


key figures

• Land area, thousands of km^2	164
• Population, thousands (2005)	10 102
• GDP per capita, $ PPP valuation (2005)	8 251
• Life expectancy (2000-2005)	73.1
• Illiteracy rate (2005)	23.8

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/687134284124

Tunisia



Tunisia is continuing to make major progress in terms of economic and social development. Economic growth reached 6 per cent in 2004 and should be 4.2 per cent in 2005 and 5.3 per cent in 2006, driven essentially by services and tourism. The prudent macroeconomic policies initiated in recent years have allowed inflation and the budget deficit to be stabilised and economic aggregates to be consolidated. Social indicators have been increasing regularly and, unlike most other African countries, Tunisia is on track to meet the Millennium Development Goals (MDG). However, with a human development index of 0.753 in 2005, Tunisia was in 89th position in the "medium development" country group but very much below its 69th world ranking in terms of its GDP per capita at purchasing power parity of $8 251.

The economy has managed to withstand external shocks such as the abolition of the Multi-Fibre Agreement and is diversifying and modernising its activities in order to meet international competition.

The high level of education of its labour force, its proximity to the European market and its social and institutional stability are advantages which should enable Tunisia to develop new activities, notably in the service sector. The process of price liberalisation and abandonment

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)

Source: IMF and Budget data; estimates (e) and projections (p) based on authors' calculations.

of subsidies is slow, however. At international level, integration of the Tunisian economy poses several problems in terms of competitiveness and adaptability.

With the end of the Multi-Fibre Agreement in January 2005 and the numerous free trade agreements it has signed, the country risks feeling the full force of the impact of its openness to international competition. The difficulties currently being expressed by its main export industry – textiles and clothing – highlight its need to find new sources of growth, capable of generating jobs. The high level of unemployment (13.9 per cent in 2004), particularly among qualified young higher education graduates, is also a major challenge for political leaders. Finally, numerous structural reforms are needed to reinforce transport infrastructure. To respond to these issues, and to integrate into an ever more competitive world market, Tunisia needs to improve its business and private sector investment climate, put greater emphasis on governance and reduce bureaucracy.

Recent Economic Developments

The recovery of the Tunisian economy was confirmed in 2004 thanks to the pursuit of sound macroeconomic policies. The following year, however, the dismantling of the Multi-Fibre Agreement and the surge in oil prices, which reached record levels in August 2005, accentuated the increasingly restrictive aspect of the international economic environment. The negative effects were not long coming in an oil-importing country with a substantial textile sector. Despite these constraints, the Tunisian economy was robust, registering an economic growth rate of 4.2 per cent in real terms, against 6 per cent in 2004. Excluding agriculture, GDP growth improved, rising from 5.5 per cent in 2004 to 5.6 per cent in 2005. Forecasts for 2006 and 2007 put real GDP growth at 5.3 and 5.5 per cent respectively.

While the forest, agriculture and fishing sector represented 14 per cent of GDP in 2004, growth in agricultural added value (fishing included) fell 0.5 per cent in 2005, after an increase of 9 per cent in 2004. The sector should have benefited, nonetheless, from the start of negotiations with the European Union. New rules for trade in agricultural products, including increased quotas of olive oil, potatoes, tomatoes and figs, were due to be adopted by January 2006 and the sector's growth rate in 2006 is expected to be 3 per cent.

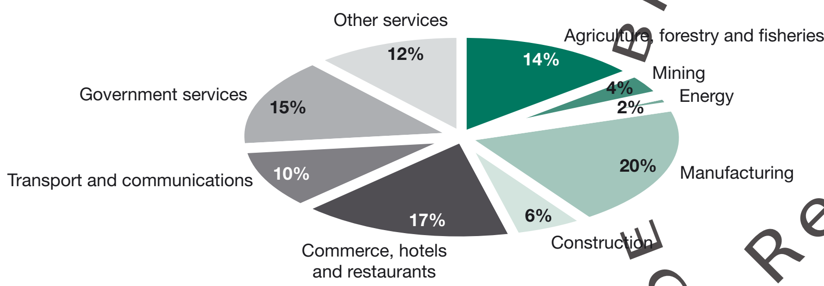
Although a series of reforms involving extended financial and fiscal benefits was introduced with the aim of encouraging high-potential new activities, agricultural production remains nevertheless dependent on climatic conditions. Yields remain low, notably because of abandonment and under-exploitation of arable land. During the summer of 2005, moreover, Tunisia declared a 62 nautical mile exclusive fishing zone off its coast, from which Maltese trawlers could find themselves banned. The second biggest food export product after olive oil, fish reached a record production level of 110 000 tonnes in 2004 and offers good prospects. Measures to improve refrigeration and processing are in progress with the aim of facilitating access to the European market.

Energy-sector growth was 4.1 per cent in 2005. On average, Tunisia exports 2.5 million tonnes of crude oil per year and imports more than 1 million tonnes, while its own production stands at 3 million tonnes (3.3 million tonnes of oil equivalent in 2004). The country covers only 46 per cent of its needs but exploration is continuing. In June 2005, a new deposit of nearly 19 500 barrels per day or 8 per cent of national production came into production. The government attributed more than a dozen oil exploration permits, moreover, in 2005. Increasing hydrocarbons production is part of the country's energy strategy. As regards natural gas, British Gas inaugurated a new 1 500-tonne compressor at a cost of $160 million to increase production from the Miskar field in the Gulf of Gabes in the south. This field should lift production capacity from 5 to 5.7 million cubic metres per day and make it possible to maintain a stable level of gas production in the long term. Miskar alone produces 65 per cent of the country's natural gas needs.

For a number of years, the mining sector has been in decline as a result of the exhaustion of deposits and the volatility of international prices which has created financial problems in the operating companies. The sector contracted by 3.7 per cent in 2005 and is expected to contract by a further 6.2 per cent in 2006. In phosphates, the Compagnie Nationale de Phosphate de Gafsa operates seven open-cast quarries and one underground mine and has an annual production of 8 million tonnes, which makes Tunisia the world's fifth biggest producing country.

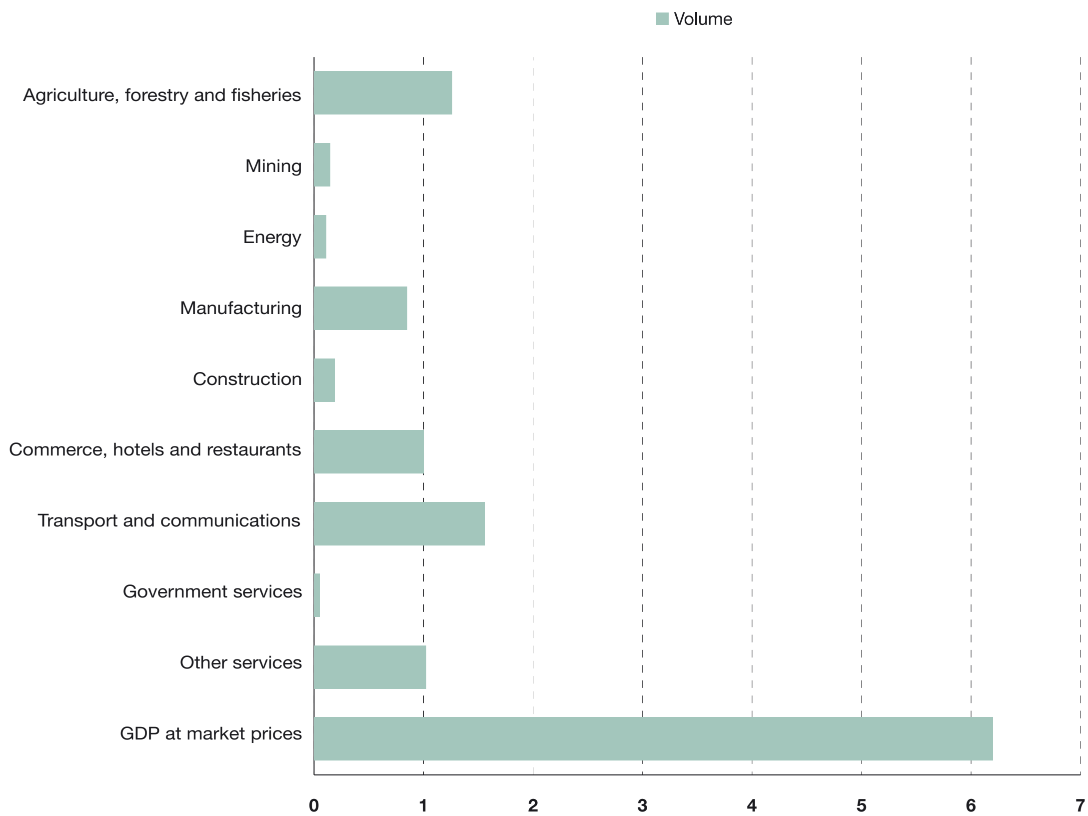
Industry represented 26 per cent of GDP in 2004. A programme aimed at preparing companies in the sector to face foreign competition has been in progress since 1996. The results of this programme indicate that companies have increased their investment by 70 per cent, particularly in the agro-food industry, and

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Authors' estimates based on budget data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Authors' estimates based on budget data.

their exports by 16 per cent. At the end of October 2005, 3 372 companies were taking part in this programme. Out of 2 153 dossiers approved, 800 were from companies in the textile sector.

In 2005, the Tunisian textile sector accounted for some 2 000 companies and 250 000 jobs and represented half of total industrial added value and export receipts. With the disappearance of protective tariffs and quotas, Tunisian companies are exposed to intense competition from Chinese products in a sector which is the country's main source of export earnings. The sector contracted by 2.5 per cent in 2005 and is expected to lose another percentage point in 2006. Out of a total 250 000 jobs, 3 000 have been axed but this figure is still a long way from the World Bank's forecast that 100 000 jobs would be lost in 2005. In addition, demand for new equipment has risen by 35 per cent as companies try to modernise their production plants. The sector's prospects depend on the capacity of the companies to manage their activities more efficiently and replace obsolete technology in a highly fragmented market, in which many small companies serve as sub-contractors.

Despite these difficulties, the manufacturing sector showed 1.9 per cent growth in 2005, compared with 4.3 per cent in 2004, when the mechanical and electrical industries improved their performance by 8 per cent.

The construction sector recorded 3 per cent growth in 2005, against 3.5 per cent the previous year.

The services sector contributed 55 per cent to GDP formation in 2005, providing employment for more than half of the active population. The sector's growth rate, which rose from 7.6 per cent in 2004 to 8.9 per cent in 2005, should reach 9.1 per cent in 2006, boosted by the boom in the telecommunications sector, which is expected to show growth of more than 20 per cent.

Tourism, the locomotive of the Tunisian economy, should benefit from a record 6.5 million visitors in 2005, most of them European. The French market, with more than 1 million tourists per year, progressed 21 per cent. With a total of 226 000 beds, Tunisia now has surplus capacity and has to carry out promotion campaigns directed at new markets like the Czech Republic and Poland in Eastern Europe, Canada, the United States, Japan, Iran and China. The sector's growth rate, which stood at 7.6 per cent in 2004 and 7.5 per cent in 2005, is expected to ease to 6.5 per cent in 2006. A new strategy has been drawn up with the aim of diversifying the offer, which is still very much turned towards the sea. Efforts are to be made to develop thalassotherapy, cultural tourism and golf. Ten new thalassotherapy centres are being built to add to the 30 or so already in existence. The country is looking to develop sport, cultural and ecological tourism in the mountainous north-west region, close to Algeria. Efforts are also being made to improve quality through a hotel upgrade programme and the application of more demanding criteria for hotel classification.

The added value of the telecommunications sector increased 24 per cent in 2005, compared with 20.5 per cent in 2004. Its share of GDP stood at about 6 per cent in 2005 and its contribution to economic growth was more than 17 per cent. Organisation of the second phase of the World Summit on the Information Society in Tunis in November 2005 encouraged the government to reinforce further the place occupied by this sector in the national economy. The number of fixed and mobile telephone subscribers increased respectively from 141 000 to 175 000 and from 3.7 million to 5 million between 2004 and 2005. Tunisie Telecom made access to the ADSL network broadly available, while Internet connection capacity has been multiplied by seven since 2001. The call centre market is still emerging in Tunisia but offers big development potential, given the large number of young graduates,

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**26.4**	**25.7**	**25.0**	**24.7**	**25.3**	**23.7**	**24.0**
Public	4.6	7.5	7.4	7.1	7.5	6.9	7.0
Private	21.9	18.2	17.7	17.7	17.9	16.8	17.0
Consumption	**76.0**	**78.6**	**78.8**	**78.6**	**78.5**	**75.5**	**76.7**
Public	15.8	16.0	16.3	15.8	15.8	15.2	15.5
Private	60.2	62.6	62.5	62.7	62.7	60.4	61.2
External sector	**-2.5**	**-4.3**	**-3.9**	**-3.3**	**-3.8**	**0.7**	**-0.7**
Exports	43.8	45.2	43.8	44.6	44.1	47.1	46.7
Imports	-46.2	-49.5	-47.6	-47.9	-47.9	-46.4	-47.4

Source: *Institut National des Statistiques* data; estimates (e) and projections (p) based on authors' calculations.

low salary costs and moderate local call prices. At the end of 2004, 18 call centres, of which 13 of foreign origin, were in operation and providing work for 1 900 people.

As in previous years, the 6 per cent growth rate recorded in 2004 came essentially from growth in internal demand, which rose 4.3 per cent, and, above all, from consumption growth, which increased 4.1 per cent. Public consumption was particularly high as a result of efforts to compensate for the social impact of the high unemployment rate. It is expected to account for more than 15 per cent of GDP over the 1997-2007 period. The forecasts for 2005 show that the main contributor to growth was again consumption with a 3.7 per cent increase, while the contribution of investment and exports of goods and services are expected to be low at -0.3 and 1.4 per cent respectively.

In 2004, gross capital formation increased 5 per cent, less than GDP, to give an investment rate of 24.7 per cent. The nominal growth rate is expected to increase to 6.3 per cent for 2005 and 8.9 per cent for 2006. To promote the development and improve the competitiveness of local companies, six new industrial zones are due to be created in 2006, as well as five start-up zones offering opportunities for partnership, co-operation and exchange of experience. The Banque de Financement des Petites et Moyennes Entreprises (BFPME) was due to develop and finance about 100 projects in 2005. Foreign investment was to be encouraged through the elimination of the need for prior authorisation for the acquisition of small and medium-sized companies and the purchase or renting of land or premises in industrial and tourist zones, as well as through an increase from 20 to 30 per cent in the quota of production which offshore companies are allowed to sell on the local market. Nevertheless, private investors have to contend with heavy administrative procedures and difficulties in gaining access to sources of financing and credit.

Macroeconomic Policies

Fiscal Policy

The 2004 budget deficit contracted, passing from 3.2 to 2.3 per cent of GDP. It should remain fairly low in 2005 at 3 per cent of GDP by virtue of strong domestic demand, which has brought a rise in fiscal revenue from 14.7 to 14.9 per cent of GDP, compensating for the loss of customs duties due to implementation of the partnership agreement with the European Union. In addition, since the government includes the proceeds of privatisations in its revenue, the sale of Tunisair, if it happens in 2006, will enable the budget deficit to be reduced to 2.1 per cent of GDP.

At the expenditure level, 2004 was marked by elections and an increase in oil subsidies in response

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**28.7**	**25.6**	**24.3**	**24.8**	**24.1**	**23.9**	**24.1**
Tax revenue	14.4	15.1	14.7	14.7	14.9	14.6	14.8
Grants	0.3	0.4	0.2	0.2	0.2	0.2	0.2
Total expenditure and net lending[a]	**32.6**	**28.2**	**27.5**	**27.1**	**27.2**	**26.0**	**26.6**
Current expenditure	25.3	19.8	19.4	19.7	20.1	19.5	20.0
Excluding interest	*21.8*	*16.7*	*16.6*	*16.8*	*17.3*	*16.8*	*17.5*
Wages and salaries	11.1	12.3	12.3	12.1	12.2	11.6	11.8
Interest	3.4	3.1	2.8	2.8	2.8	2.6	2.5
Capital expenditure	6.4	8.0	7.4	7.2	6.8	6.3	6.3
Primary balance	**-0.4**	**0.5**	**-0.4**	**0.5**	**-0.2**	**0.5**	**0.0**
Overall balance	**-3.8**	**-2.5**	**-3.2**	**-2.3**	**-3.0**	**-2.1**	**-2.5**

a. Only major items are included.
Source: Budget data; estimates (e) and projections (p) based on authors' calculations.

to the increase in prices on the international market. An energy conservation programme for the period 2005-08 should make possible savings of 1.25 million tonnes of oil equivalent and reduce by 220 million dinars state compensation to the sector. A new increase in hydrocarbon prices in Tunisia cannot be ruled out, however, if oil prices continue to rise.

Despite the efforts made to reduce total spending, current expenditure remained stable in 2005 and 2006 at about 20 per cent of GDP in line with efforts to maintain social stability. Public sector salaries, which represent nearly 12 per cent of GDP, should be reduced but political considerations have prevented this from happening. At the revenue level, the 2006 Finance Act includes an increase from 25 to 35 per cent in VAT credits for companies whose accounts have been approved and a reduction in customs duties for a new list of raw materials and capital equipment.

Monetary Policy

The main objective of the Banque Centrale de Tunisie (BCT) is to preserve the value of the dinar inside and outside Tunisia by keeping inflation at a low level and maintaining the external balance. Near money (M2) increased 11.3 per cent in 2004.

State indebtedness to the monetary system showed notable recovery at the end of 2004. This change was the result, notably, of an increase in the stock of Treasury bonds held by the banks. On the other hand, aid to the economy increased only 5.3 per cent, less than the 6 per cent forecast. If the increase in outstanding medium and long-term credit above all benefited the services sector, where it showed 7.5 per cent growth, lending to the agricultural and fishing sector progressed only 1.6 per cent. By activity sector, total outstanding credit shows a slight year-on-year fall in the share going to the industrial sector in favour of the services sector.

The exchange rate regime is partly flexible, so that the BCT can intervene on the market to maintain the parity of the dinar and the price-competitiveness of Tunisian exports on the European market. A floating exchange rate regime and total convertibility of the dinar should be brought in progressively but will not come into effect until 2008 at the earliest.

The inflation rate settled at 3.6 per cent in 2004. It has been estimated at 2.1 per cent in 2005 and is forecast to be 2.8 per cent in 2006 and 2007. This small rise in inflation could be the result of an increase in the prices of industrial goods and changes in the real dinar exchange rate. Despite the increase in oil prices since August 2004, however, the increase in the consumer price index has again fallen to 1.5 per cent on an annual basis. Food prices, which account for 36.5 per cent of the index, have virtually stagnated, unlike house prices, which rose 4.4 per cent in 2005. The state administers or subsidises, directly or indirectly, a little over 30 per cent of the prices incorporated into the index. More than a third of these concern food and oil products.

In June 2005, the United States and Tunisia opened negotiations on a free trade zone. Tunisia has also signed several regional preferential trade agreements, including the Association Agreement with the European Union, the Greater Arab Free Trade Area (GAFTA), the Arab-

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-10.3	-10.1	-9.1	-8.6	-7.8	-9.1	-10.5
Exports of goods (f.o.b.)	29.4	32.6	32.1	34.3	35.8	33.1	32.6
Imports of goods (f.o.b.)	-39.8	-42.7	-41.2	-43.0	-43.6	-42.2	-43.1
Services	7.2	6.5	6.2	6.0			
Factor income	-0.9	0.3	-4.4	0.3			
Current transfers	0.9	-0.3	4.4	-0.2			
Current account balance	**-3.1**	**-3.5**	**-2.9**	**-2.5**			

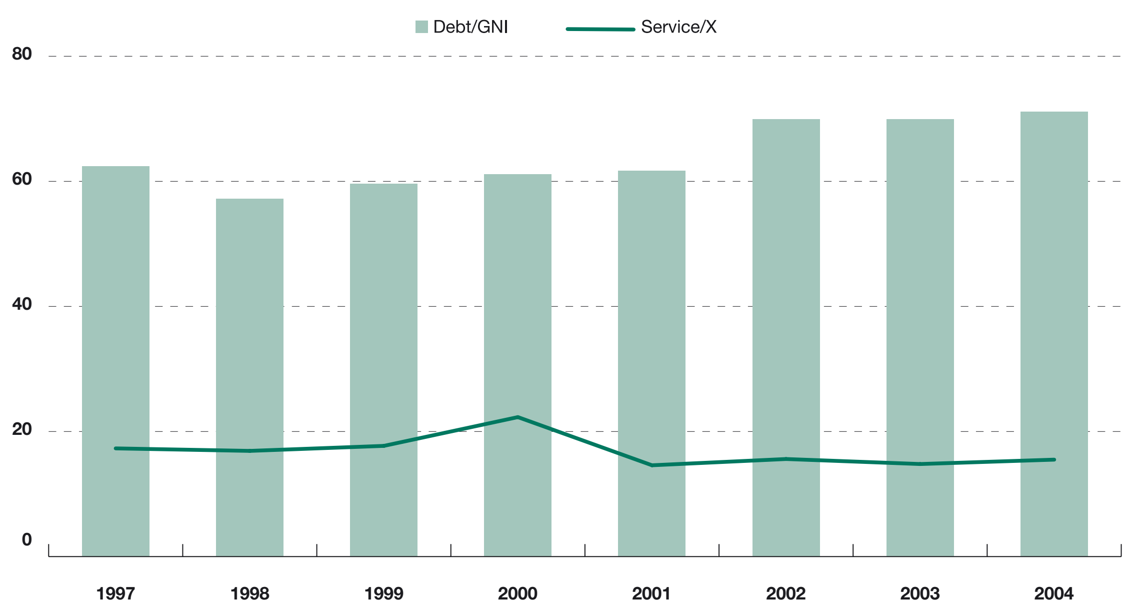
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Mediterranean Free Trade Agreement, as well as agreements with the European Free Trade Association and the Union du Maghreb Arabe, and various bilateral agreements. It follows that Tunisia's trade partners have different access to its market, according to the agreement to which they have subscribed and the degree to which it has been brought into effect. According to the World Trade Organisation, this situation could create trade and preference distortion and result in Tunisia contracting obligations which are mutually incompatible. Certain agreements are slow coming into force. The Union du Maghreb Arabe, for example, is finding it hard to function because of wide-ranging competition between different countries' export products and political differences.

In 1995, Tunisia was the first Mediterranean country to sign a partnership agreement with its principal trading partner, the European Union, as a prelude to total market access in 2010. More recently, it adopted an action plan under the terms of the new European Neighbourhood Policy. Despite uncertainties arising out of the textile crisis, European enlargement and democratisation requirements, the outcome of this partnership has been largely satisfactory. With the end of the Multi-Fibre Agreement, Tunisia obtained an exemption from the EU enabling it to put 10 000 tonnes of articles on the European market. Whereas the original rule requires that all cloths should come from the exporting country, the exemption allows the export of clothes made in Tunisia with cloths from Turkey. Europe has also helped to upgrade the Tunisian economy under the terms of the MEDA Euro-Mediterranean partnership programmes. European Investment Bank loans have been allocated on the basis of commitments representing more than 1 billion dinars at the end of 2004 (E777 million).

Although Tunisia has been following the path of liberalisation for a number of years, the process is still encountering problems and resistance. The simple arithmetical average of the Most Favoured Nation tariffs applied by Tunisia in 2005 was 32 per cent, compared to 33 per cent in 2004. At the same time, average duties on agricultural products are 67 per cent, with a maximum rate of 150 per cent, while the average for non-agricultural products is 23 per cent. The reduction in customs duties, which is inherent to application of the

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

preferential trade agreements, has been made up for by other domestic duties and taxes which apply to local products and imports. Exporters, on the other hand, benefit from a whole range of advantages in the form of financing for transport costs, fiscal exemptions, customs facilities and unrestricted currency exchanges. These advantages are provided for by different legal texts, covering "totally" and "partially", "resident" and "non-resident" exporting companies. The complexity of these different regimes encourages bureaucracy rather than transparency. At the end of 2004, a reform of technical inspection procedures for imports was initiated with the aim of reducing customs clearance times.

Between 2004 and 2005, Tunisia's trade deficit decreased from 8.6 to 7.8 per cent. In 2005, the increase in the value of exports was partly the result of the appreciation of the euro. In this way, exports represented 35.8 per cent of GDP, although this percentage should diminish in 2006 and 2007. Over the period, exports should increase at a slower rhythm than imports and the trade deficit is expected to increase to 9.1 and 10.5 per cent of GDP respectively.

The increase in exports was generated particularly by energy and the mechanical and electrical industries. Textile exports, which represent 50 per cent of Tunisian exports or 3 billion euros per year, of which 80 per cent are destined for the European market, were virtually stagnant in the first half of 2005. Imports of energy products, raw materials and semi-finished products increased the most. The geographic trade structure has not been modified as a result of the new trade agreements, and the EU remains Tunisia's principal trading partner.

The improvement in the balance of services surplus is the result of recovery in the tourism sector and, by extension, the air and sea transport sectors. Tourist receipts in foreign currency, which cover 56 per cent of the Tunisian trade deficit, should reach more than 1.5 billion euros in 2005, which is to say 11.3 per cent more than in 2004 and 9 per cent more than in the reference year of 2001. The transfers of Tunisian expatriates also increased 5.4 per cent. Overall, Tunisian foreign currency reserves totalled 5.51 billion dinars (€3.42 million) in August 2005, representing the equivalent of about four months' imports.

Direct foreign investment was estimated to have reached €488 million in 2004, down 5.3 per cent on 2003 and 44 per cent on 2002. Investment should nevertheless recover in the energy sector over the next few years. The Arab Al Thani Corporation is due to invest $4 million over two years in hydrocarbons prospecting. The Austrian oil company OMV announced plans to invest $100 million in 2005, while two other permits have been attributed to American-Austrian and British consortia for a total investment of $13 million.

On the international capital markets, investors are confident. In June 2005, Tunisia raised €400 million via a 15-year bond debenture bond with annual interest of 4.5 per cent. European investors took up 80 per cent of the loan, while 8 per cent went to American investors and 6 per cent to Asian and Middle East investors. Tunisia thus gained entry to the small circle of issuers capable of borrowing over the long term at a competitive rate. The offer from investors totalled €1.5 billion.

The process of liberalisation of exchange-rate and trade regulations is continuing gradually. New relaxations were introduced for capital accounts in 2005. These included: the right for non-residents to purchase up to 5 per cent of Treasury bonds denominated in foreign currency; an increase in the level of transfers allowed to exporting companies; an extension of the right of non-exporting companies to realise investments abroad to finance their foreign activities; the right for non-resident account holders to borrow for more than 12 months without limitation on the amount, provided that the contracting company has first been assessed by an international rating agency.

The external debt level increased from 69.9 per cent in 2003 to 71.1 per cent in 2004. Despite this increase, the debt service coefficient stayed at an acceptable level of 14.1 per cent in 2004, against 13.1 per cent in 2003.

Structural Issues

Recent Developments

The World Bank's 2005 report on business climate ranks Tunisia 58th in the world, putting it among the leaders in the Middle East and North Africa. Tunisia showed some improvement in indexes for company creation and winding up procedures and contract application law. It was held back in the rankings, however, by less good ratings for investor protection, recruitment and dismissal procedures, the scale of its informal economy (38 per cent) and access to credit. More particularly, economic governance is weak and the regulatory framework is seriously lacking in transparency and reliability. Large-scale state interference in the workings of the economy, the granting of privileges to certain sectors and the low levels of acceptance of responsibility, freedom of expression and participation all have a seriously damaging effect on the business climate.

Recently, measures have been taken to remedy this situation. Under the terms of a law adopted in June 2005, the purchase, lease and transfer of land and premises in industrial and tourist zones are exempted from the requirement to obtain authorisation from the regional governor. The new legislation aims to incite foreign investors, companies and individuals involved in economic activity to buy land and premises.

Reform of the banking sector has been concerned with mergers and privatisations of public-sector banks. Restructuring has continued through the transformation of four mixed-capital development banks into general purpose banks. In addition, to remedy the lack of dynamism of venture-capital companies, the Banque de Financement des Petites et Moyennes Entreprises (BFPME) was set up in March 2005 with an initial capital of 50 million dinars (30 million of which from the state). In 2006, the Banque Maghrébine de l'Investissement et du Commerce Extérieur (BMICE) was due to open for business with the objective of helping Maghreb countries create an environment favourable to investment and to develop trade in the region.

Since the launch of the privatisation programme in 1987, 193 companies have been privatised. In 2005, however, only four companies were privatised. These privatisations brought in revenues totalling 2.39 billion dinars (about €1.43 billion), of which 74 per cent from foreign investors. The tourism and trading sectors have been most involved, followed by construction materials and mechanical and electrical industries. The rhythm of privatisation of strategic sectors like finance, telecommunications and transport is much slower.

Bids have been invited for a 35 per cent stake in the capital of the Société Nationale de Distribution du Pétrole (SNDP), Tunisia's sixth-biggest company by turnover. In September 2005, Tunisie Telecom put up for sale 35 per cent of its capital and hopes to raise $1.4 billion through the operation, which promises to be the biggest the country has ever known. Tunisie Telecom is the leading local telecommunications group by turnover, with 4.2 million subscribers and 72 per cent of the mobile telephone market. In October 2005, a Hispano-Moroccan consortium acquired a 33.5 per cent stake in Banque du Sud. The transaction raised €40 million, even though a first call for bids in June 2004 failed to produce a result. Tunisia's seventh biggest bank on the basis of assets, Banque du Sud has debts totalling 400 million dinars (€266 million), of which 120 million dinars (€80 million) is not covered by provisions or guarantees.

Transport Infrastructure

Transport infrastructure is well developed and in good condition. The level of equipment is considered satisfactory, with an official road network of 19 117 km (of which 70 per cent surfaced), 192.5 km of motorway (due to rise 450 km by the end of 2006), 6 international airports, 7 major commercial ports and about 2 000 km of railway.

Road transport remains the predominant transport mode, carrying 305 400 travellers and 192 000 tonnes of merchandise daily. In 2002, the country's 57 hauliers accounted for only a minimal share of international road transport, with a share of just 3 per cent of the 25 million tonnes of merchandise transiting by sea then road between Tunisia and the rest of the world. The situation has barely improved since then. This low share of external trade is due, notably, to the difficulties of both obtaining visas for Tunisian drivers and of Tunisian companies establishing themselves in Europe. The low proportion of Tunisian vehicles which meet European standards is also an impediment.

Almost all (97 per cent), international trade goes by sea, 77 per cent of it with Europe, particularly Italy and France. The volume of external sea trade in 2004 was about 27.6 million tonnes. The productivity of the maritime sector is low, however. Rades, the main port, suffers from congestion, caused by the slowness of port operations, which are carried out exclusively by the public sector company, Société Tunisienne d'Acconage et de Manutention (STAM). The government has nevertheless promised to give up its monopoly and the European Investment Bank has provided financing for part of the cost of new quays and the computerisation of customs procedures. There are plans, too, to build a deepwater port at Enfidha, 70 km south of Tunis via a concession to the private sector. This zone has also been chosen for the construction of a major airport by the end of 2008, which will be managed by foreign companies. The estimated cost of the airport, which will have capacity for 30 million passengers, is €384 million.

The country has ten airports, the biggest of which are Tunis, Monastir, Djerba, Sfax, Tozeur and Tabarka. Tourism accounts for 85 per cent of traffic and is concentrated between April and October, when 70 per cent of annual traffic is handled. The air transport sector generates a great deal of foreign currency revenue and accounts for 2 per cent of GDP and about 12 000 jobs.

Rail transport carries 35 million passengers annually, of whom 5 million on main lines, and 13 million tonnes of goods, of which 8 million tonnes of phosphates. In the capital, in addition to buses, the Société de Transport de Tunis runs a 34 km light metro and an electrified rail line using 134 metro trains and 18 conventional trains respectively. The number of passengers on the rail network in 2004 was 133 million.

In the long term, these various networks should be privatised.

The organisation, management and co-ordination of the different activities of the transport sector is the responsibility of the planning and research department and the land transport department of the Ministry of Communication Technology and Transport. The planning and research department manages and operates the port and railways, while the land transport department is responsible for pricing, driving licences, transport permits and vehicle technical inspections.

The Tunisian railway company, SNCFT, now operates in a more competitive market environment. The state grants it a concession of the fixed installations, principally the track and ancillary equipment, for a fixed annual payment. Responsibility for the development of the rail sector, including investment in new infrastructure, remains the responsibility of the state, however, which remains proprietor of the network. SNCFT has charge of its operation and maintenance.

The airports are up to international standards and are managed by a state structure, the civil aviation and airport office (OACA), which is also in charge of the construction, maintenance and supply of airport installations and air transport security. On the domestic market, prices for the transportation of passengers and goods are regulated. Since 1996, charter activity is open to the private sector, provided that the majority of the capital of the company concerned is in Tunisian hands. In 2004, the civil aeronautics code was modified to open a wide range of services to the private sector in such domains as the construction, organisation, operation, maintenance and development of airports and the upgrading of Tunisian regulations to European standards. Current policy is to increase the capacity of the international airports.

In a more general fashion, transport policy aims to modernise capacity, increase capital productivity, reduce the level of public regulation, promote multimodal transport and integrate Tunisian transporters into international networks. The Transports Internationaux

Routiers (TIR) convention aims to eliminate volume restrictions and to exonerate imports on TIR vehicles from duties and taxes. At institutional level, real implementation of the reforms undertaken to liberalise the sector is considered slow.

Major investments and institutional reforms have been started recently with the financial support of different actors in the sector, including the African Development Bank, the International Bank for Reconstruction and Development, the European Investment Bank, the Arab Social and Economic Development Fund and the Japanese Bank for International Cooperation. The aim is to deal with the country's shortfalls in the transport sector and upgrade existing operations. In the absence of an adequate legal framework, however, the transport infrastructure sector is having difficulties finding private sector investors and setting up public private partnerships.

Political and Social Context

At the political level, despite promises of liberalisation, the opposition remains weak and muzzled. In 2005, for instance, the authorities suspended the national congress of the Tunisian human rights league and the constituent congress of the Tunisian journalists' union, SJT, and froze the assets of the Arab Institute for Human Rights. The political pressures exercised by Western countries at the World Summit on the Information Society in November 2005 in favour of progress towards democracy and freedom of expression were not enough to make any marked change in the situation. Non-governmental organisations estimate that there are 500 prisoners of conscience denied this status by the authorities who consider them to be common-law prisoners.

President Zine El Abidine Ben Ali's party, the Rassemblement Constitutionnel Démocratique (RCD), occupies 80 per cent of the 189 seats in the Chamber of Deputies and won 94 per cent of the seats on the district councils in the May 2005 municipal elections. President Ben Ali is expected to remain in office until 2009. These different victories should preserve the RCD's hold on the country and its media over the next few years. This situation weighs on the functioning of the economy and the development of a more efficient private sector.

The improvement in Tunisia's social indicators can be seen in life expectancy at birth, which, at 73.4 years, is comparable to that of the developed countries. The percentage of the population living on less than two dollars per day stood at 6.6 per cent in 2005.

Tunisia needs to resolve its unemployment problem. The level of unemployment stands officially at 14 per cent, with young higher education graduates, who number 40 000 per year, forming a large contingent among the unemployed. Another explanation of the moderate growth in job creation lies in the small size of companies, 84 per cent of which have fewer than ten employees. In 2006, the state is to make use of the national employment fund to finance 50 to 75 per cent of the salaries of certain categories of new higher education graduates. New company creation aids are also due to be created, notably in the cultural, environmental and new technology fields.

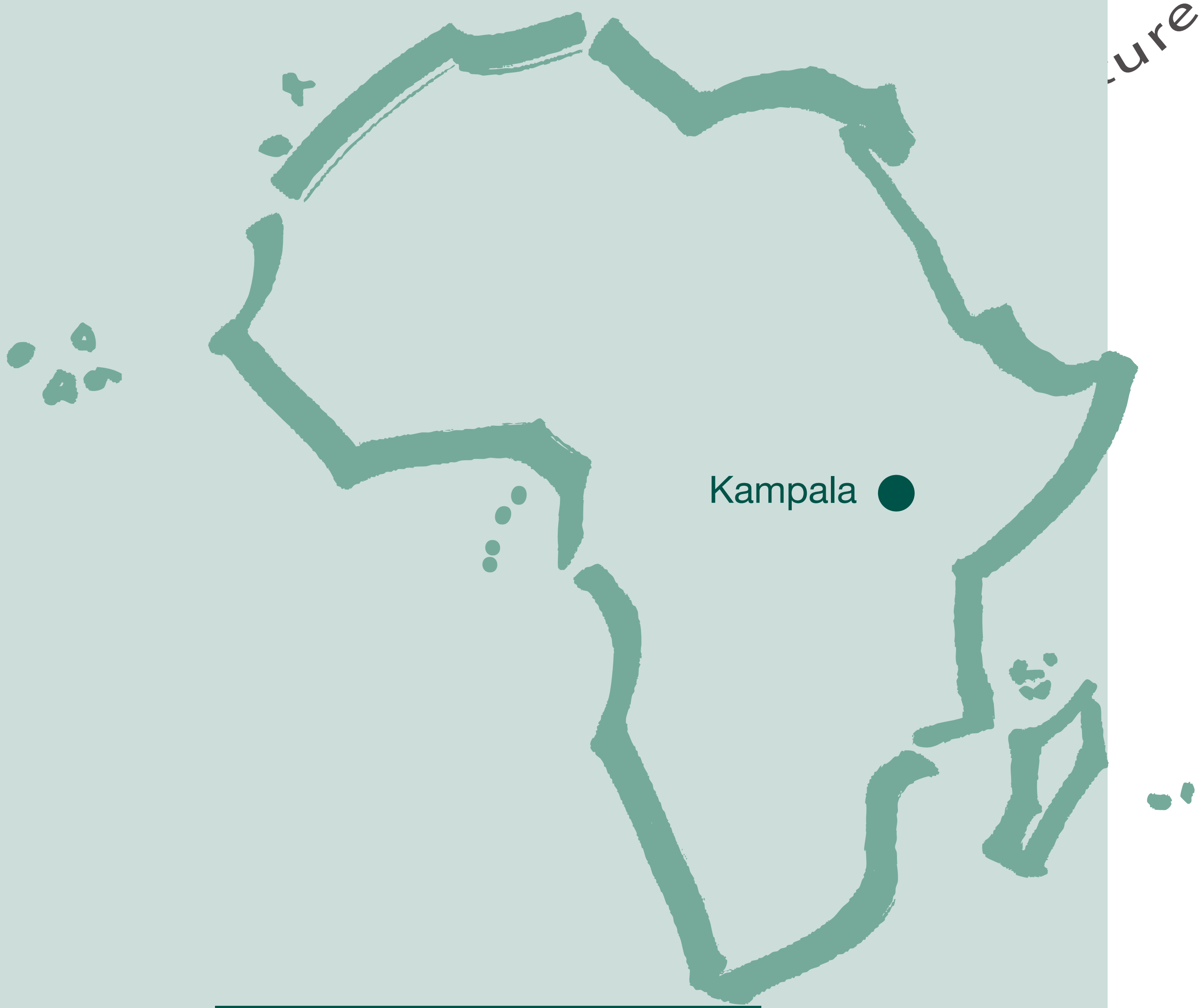
Minimum salaries were increased on 1 September 2005 benefiting 280 000 workers. This increase of about 3 per cent applies to the minimum guaranteed salary (SMIG), which increased from 218.192 to 224.224 dinars (about €140), while the daily agricultural wage was augmented by 0.2 dinars.

The regular rise in health, education and social protection indices puts Tunisia in a comfortable position in terms of achievement of the Millennium Development Goals. With regard to women's rights, half a century of particularly liberal laws has made possible major advances. Polygamy and repudiation of wives have been banned. Legal divorce has been introduced, as have a minimum age for the marriage of young girls, the right to education and paid employment. In recent years, women have obtained the right under certain conditions to have wardship over their children and to transmit to them their nationality. Sexual discrimination is still present, however. The most flagrant example is inequality between men and women under inheritance law, which provides for men to have a double share.

Official figures put health spending at 7.7 per cent of the state budget. In 2004, there was one doctor for every 1 015 inhabitants, compared with one for 1 800 in 1990. The vaccination rate was close to 95 per cent and no case of polio, cholera, diphtheria or malaria has been recorded for several years. On the other hand, along with the increase in life expectancy, cardio-vascular, urinary and respiratory disease is becoming more common. For example, 10 000 new cases of cancer are recorded every year, compared with 5 000 twenty years ago. The number of patients has been multiplied by seven over the last eight years.

Illiteracy affected 22.9 per cent of the population in 2004 but schooling levels are relatively high at 97 per cent in primary education, 73 per cent in secondary education and 20 per cent in higher education. Public spending on education represented 6.8 per cent of GDP in 2004. The Tunisian education sector is coping with the challenge of democratic transition. The steady fall in the birth rate has led to a fall in the number of pupils in primary education, while numbers in secondary and higher education have increased sharply. Another challenge is to encourage interaction between teaching and the needs of the employment market, to make the knowledge economy more dynamic and to connect the private sector to research and the public universities. Inequality of access to school persists, moreover, particularly in rural zones, where the average rate of schooling among children between 6 and 14 is 75 per cent for boys and 69 per cent for girls.

Uganda

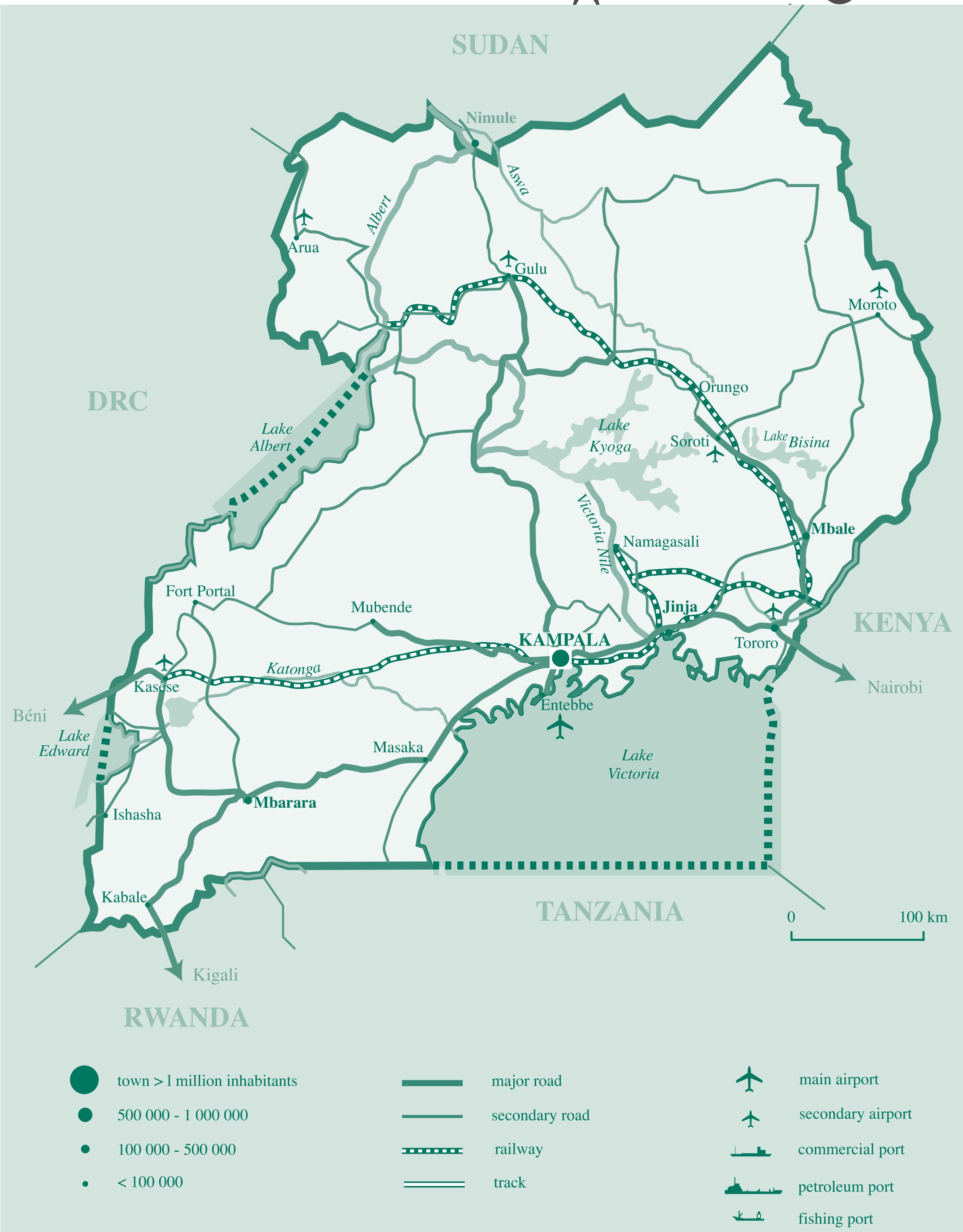


key figures

• Land area, thousands of km^2	241
• Population, thousands (2005)	28 816
• GDP per capita, $ PPP valuation (2005)	1 686
• Life expectancy (2000-2005)	46.8
• Illiteracy rate (2005)	28.4

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/357821463113

Uganda



FOR THE PAST TWO DECADES, Uganda has had one of the most successful economies in Africa, combining high growth and low inflation. Real GDP growth was an estimated 5.8 per cent in the 2004/05 fiscal year and is projected to remain roughly steady at that rate in 2005/06. This strong economic performance is attributable to prudent macroeconomic management and bold structural reforms, supported by large inflows of overseas development assistance (ODA). However, recent unsettling political developments have led a number of international donors to reassess their support.

The government has made important progress towards liberalising markets and reducing poverty. Under President Yoweri Museveni's leadership, Uganda has been a leader in Africa in moving towards deregulation, privatisation and decentralisation of governance, with the goal of enabling the private sector to become the major engine of growth. The government is advancing with reforms, notably to improve infrastructure and assist small and medium enterprises. These economic reforms along with efforts to boost health and education under the 1997 PEAP have been rewarded with sharply falling poverty rates, increased life expectancy, higher literacy rates and better health services, including a substantial reduction in HIV/AIDS infection rates.

Concern about political developments halted large inflows of ODA.

Although President Museveni is much admired for his economic stewardship, his government's ambivalence

Figure 1 - Real GDP Growth and Per Capita GDP
($ PPP at current prices)

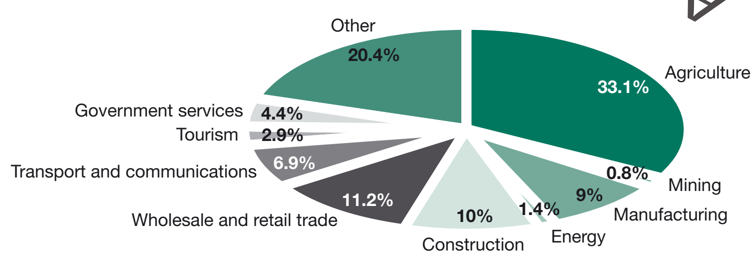
Source: IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

about moving towards multi-party politics and democracy is eliciting concern and calling into question prospects for further economic progress. In 2006, Uganda is scheduled to hold its first multi-party parliamentary and presidential elections in 25 years, but the government appears to be stacking the odds for President Museveni and his party to remain in power. The constitutional term limit for the president was revised, removing a legal impediment to President Museveni's candidacy. Moreover, the arrest of the largest opposition party's leader on serious criminal charges is widely viewed as politically motivated. Donors are also dismayed over the government's continued infringements against the independence of the judiciary, freedom of the press and freedom of association. Fiscal restraint is also jeopardized by continued state financing of President Museveni's National Resistance Movement (NRM) and a recent upsurge of public expenditure more generally. Many bilateral donors have withheld a sizeable proportion of their 2005 ODA to Uganda until after the February 2006 parliamentary elections. Military operations in northern and western Uganda also continue to be a major source of concern.

Recent Economic Developments

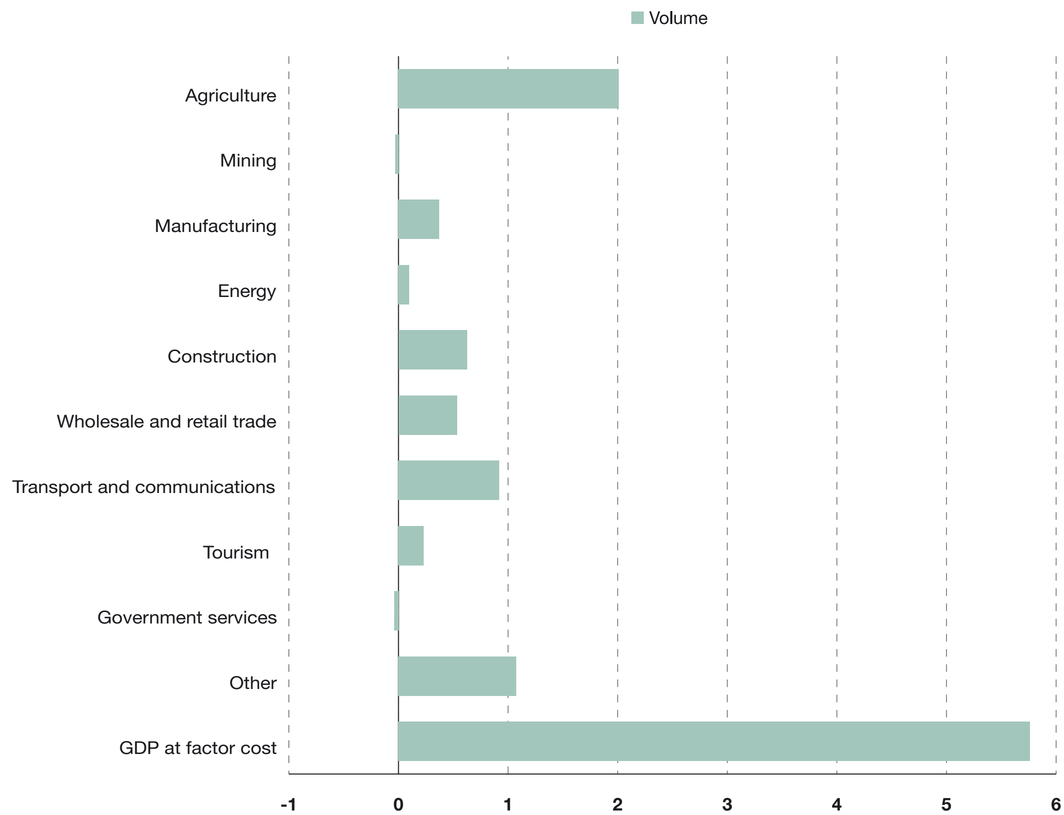
The Ugandan economy continued to experience strong growth in 2005. The 5.8 per cent growth rate was only marginally lower than the 5.9 per cent recorded

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Author's estimates based on domestic authorities' data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Author's estimates based on domestic authorities' data.

Table 1 - Demand Composition (percentage of GDP)

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Gross capital formation	**18.9**	**19.3**	**20.5**	**22.5**	**22.7**	**23.5**	**23.8**
Public	6.4	5.3	4.7	4.9	4.9	5.2	5.1
Private	12.6	14.1	15.8	17.6	17.7	18.3	18.8
Consumption	**95.6**	**95.2**	**93.7**	**91.4**	**90.7**	**89.9**	**89.5**
Public	12.3	15.2	14.8	14.5	14.2	13.8	13.3
Private	83.3	79.9	78.9	76.9	76.5	76.1	76.2
External sector	**-14.5**	**-14.5**	**-14.2**	**-13.9**	**-13.4**	**-13.4**	**-13.4**
Exports	14.5	11.9	12.2	13.7	12.2	12.6	12.6
Imports	-29.0	-26.4	-26.5	-27.5	-25.6	-26.0	-26.0

Source: IMF data; estimates(e) and projections(p) based on authors' calculations.

in 2004. Agriculture was adversely affected by a serious drought, however, and grew by a mere 2.1 per cent in 2005. Longer-standing problems of poor soil conditions, pests and crop diseases also continue to hold back agriculture. Food crop production expanded at only 1.7 per cent in both of the last two years, well below the 2001 peak of 8.2 per cent growth.

Output in industry and services grew strongly in 2005, by 9.7 per cent and 7.2 per cent respectively. The construction and mobile telecommunications sub-sectors were particularly buoyant, growing by 12 per cent and 18 per cent respectively. Consequently the shares of industry and services in GDP have been rising, reaching 20 per cent and 43 per cent respectively in 2005.

In 2005/06, real GDP is forecast to grow by 5.5 per cent. Agricultural output is forecast to increase by 3.7 per cent, as food production recovers from the 2004/05 drought, and coffee output reaps the benefits of increased planting. Industrial output is expected to grow by 10.2 per cent in 2006, with manufacturing, mining and quarrying projected to remain strong, and new thermal generation and the expected expansion of the Kiira power station boosting electricity production. Services are also expected to grow strongly at a rate of close to 7 per cent during 2006.

Macroeconomic Policies

Fiscal and monetary policy in Uganda continues to be determined by three key objectives: *i)* maintenance of stable inflation, interest and exchange rates; *ii)* an increase in credit to the private sector; and *iii)* enhancement of the international competitiveness of exports.

Fiscal Policy

Since President Museveni came to power in 1986, fiscal policy has focused on controlling budget deficits. The withholding of external grants by some bilateral donor countries in 2005, however, may cause the budget deficit to increase to an estimated 2.4 per cent in 2005/06, up from 0.7 per cent in 2004/05. The fiscal deficit is unlikely to improve much in 2006/07 unless the concerns of the international donor community are allayed and grants return to their previous levels.

Uganda's tax revenue as a ratio of GDP is low, even by African standards. In 2005/06, domestic tax revenues are expected to increase only marginally to 12.1 per cent of GDP, from 11.9 per cent of GDP the year before, largely due to disappointing receipts from value added tax (VAT). Changes to arrangements for collecting VAT on government contracts during the year proved problematic and compliance with VAT obligations remains generally poor. Higher income tax receipts did more than offset the VAT shortfall, but it is clear that there is substantial scope for improvement in the operation of the Uganda Revenue Authority.

The objective of raising tax revenues has been made even more difficult by the implementation of the East Africa Customs Union in January 2005. The customs

Table 2 - Public Finances (percentage of GDP)

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Total revenue and grants	**17.0**	**19.1**	**19.2**	**22.0**	**21.7**	**19.9**	**19.6**
Tax revenue	11.4	11.5	11.4	11.7	11.9	12.1	12.7
Grants	4.9	7.1	7.0	9.4	9.0	7.0	6.2
Total expenditure and net lending	**19.0**	**23.9**	**23.6**	**23.8**	**22.4**	**22.3**	**21.4**
Current expenditure	11.1	13.9	13.7	14.7	13.6	13.2	12.4
Excluding interest	*10.0*	*12.4*	*12.3*	*12.8*	*12.1*	*11.8*	*11.4*
Wages and salaries	3.8	5.3	5.2	5.2	5.1	5.0	4.7
Interest on public debt	1.0	1.5	1.5	2.0	1.4	1.4	1.1
Capital expenditure	7.9	9.9	9.9	8.8	8.9	9.3	9.1
Primary balance	**-1.0**	**-3.3**	**-2.9**	**0.2**	**0.7**	**-1.0**	**-0.7**
Overall balance	**-2.0**	**-4.8**	**-4.3**	**-1.8**	**-0.7**	**-2.4**	**-1.8**

Source: Domestic authorities' data; estimates(e) and projections(p) based on authors' calculations.

union is expected to lead to a decline in customs revenue of over 80 billion shillings in 2005, with further losses expected in the following two years.

Government expenditure declined from 23.8 per cent of GDP in 2003/04 to 22.4 per cent in 2004/05. The high domestic interest rates on government debt and increased defence spending, caused by conflict with the Lord's Resistance Army (LRA) in northern Uganda and continuing instability in neighbouring countries, pushed spending up. To hold down the budget deficit, expenditures for poverty eradication under the Poverty Action Fund (PAF), although supposedly insulated from general budgetary pressures, were curtailed. These reductions in poverty-reduction expenditures raised concerns about donor support for the 2005 budget. In 2005, the government cut non-priority non-PAF and non-wage expenditure to compensate for an April 2004 wage increase for 109 000 primary school teachers and for the clearance of domestic arrears accumulated in the past three years.

Tax receipts from petroleum have remained relatively stable since 2003. In July 2004, the government changed tax collection procedures on petroleum products. Taxes are to be collected at points of entry and not in depots as had been the case previously.

Monetary Policy

Monetary policy in Uganda remains focused on containing inflation below 5 per cent. In 2004 and 2005, the drought pushed up food prices, but there was limited pass-through of the recent world oil price increases to domestic pump prices. The stability of local-currency petroleum prices reflects the strong appreciation of the shilling against the US dollar and lower mark-ups due to increased domestic competition in the distribution of petroleum. As a result of the food price increases, the overall inflation rate rose from 5 per cent in 2004 to 8.2 per cent in 2005. The inflation rate is likely to fall back to 4.5 per cent in 2006 and to remain at about the same level thereafter, assuming that monetary policy is unaffected by the above-described political developments and resulting pressures to monetise the deficit.

In 2005, the broad money supply M2 grew by 12.1 per cent, below the target rate of 15.3 per cent but higher than the 10.2 per cent growth rate in 2004. Much of the growth in money supply reflected an increase in net foreign asset holdings in the banking system. The banking system's net domestic assets actually contracted by 2.8 per cent during the year, with a decline in net claims on the government which more than offset an 11.1 per cent increase in credit to the private sector. In other words, the government's rising fiscal deficit was not a contributor to the growth of money supply, underlining the substantial independence of the central bank.

Since the second half of 2004, interest rates on Treasury bills (TB) have risen for all maturities. The average rates for the three-month TB rose from 7.1 per cent in July 2004 to 10 per cent in December 2004, while the average rates for the one-year TB rose by 1.2 percentage points to 13.8 per cent. However, for three consecutive months starting in January 2005, interest rates on TBs declined across all maturities. In March 2005, issuance of the nine-month TB was phased out to encourage secondary market trading in the one-year TB. As a result of the relatively tight liquidity conditions during April, interest rates rose slightly across all TB maturities.

The exchange rate of the Ugandan shilling has been generally allowed to float, with the Bank of Uganda (BOU) intervening only to stem short-run volatility. Despite large foreign exchange inflows into the economy, the shilling appreciated only moderately in 2005. Between June 2004 and March 2005, the currency appreciated by 11 per cent and then depreciated by 4 per cent between March and April 2005.

External Position

In 2005, Uganda's exports grew by 10.4 per cent to $715 million. Export earnings from coffee, the main traditional commodity, are estimated to have increased by 7 per cent in dollar terms in 2005 due to increases in both world coffee prices and export volumes. Nonetheless, coffee export earnings and volumes remain far below the record levels of 1996/97 as a result of continued adverse weather conditions. Earnings from non-coffee exports are expected to increase by 11.1 per cent in 2005 to $593 million, led by rising exports of fish and fish products, flowers, tea and cobalt. Cotton export volumes also increased strongly, despite falling world prices.

Uganda remains dependent on a few agricultural exports, particularly coffee, fish, tea, cotton, and tobacco. Between 2000 and 2005, the share of these traditional exports in total exports remained steady at 66.7 per cent. However, the composition of traditional exports has changed dramatically, with the share of coffee exports declining from 23.9 per cent in 2000 to 17.1 per cent in 2005. Fish has now replaced coffee as Uganda's leading export product. Between 2000/01 and 2004/05, fish exports increased dramatically from $66.6 million to $155.0 million, while coffee exports increased only marginally from $110 million to $122 million. Tea exports also boomed, thanks to improved management of tea estates and increased provision of government support services. Likewise, export of flowers increased as a result of larger farm sizes, construction of more greenhouses and declining freight charges. The shift away from coffee may reduce Uganda's vulnerability to terms of trade shocks.

Merchandise imports shot up by 19.3 per cent in 2004-05 to $1 577 million, in part reflecting strong economic activity. In particular, increased imports of building materials reflected the ongoing boom in construction. Also, imports of transport and telecommunications equipment, especially vehicles and mobile phones, grew strongly.

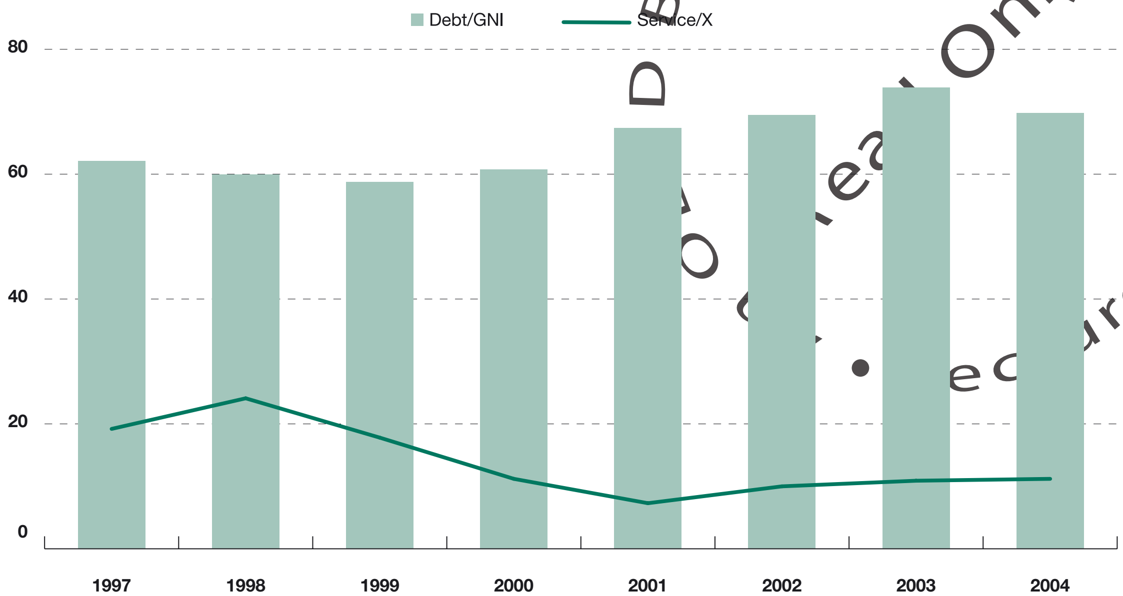
As import growth far outpaced export growth in 2005, the trade deficit rose to $862 million (10.2 per cent of GDP), up from $675 million in 2004 (9.6 per cent of GDP). The increased trade deficit was only partially offset by rising net public and private transfers. As a result, the current account deficit widened to

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

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Trade balance	-10.1	-9.2	-9.9	-9.6	-10.2	-10.3	-10.2
Exports of goods (f.o.b.)	11.8	8.2	8.1	9.3	8.5	8.7	8.8
Imports of goods (f.o.b.)	-21.9	-17.4	-18.0	-18.9	-18.7	-19.0	-18.9
Services	-3.6	-5.5	-4.3	-3.2	-3.5		
Factor income,	-1.5	-2.6	-2.8	-2.4	-2.4		
Current transfers	5.5	11.7	11.3	13.8	12.2		
Current account balance	**-9.7**	**-5.6**	**-5.7**	**-1.5**	**-3.9**		

Source: Domestic authorities' data; estimates(e) and projections(p) based on authors' calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

3.9 per cent of GDP in 2005, more than double the 1.5 per cent of GDP in 2004.

While Uganda's current account has been persistently in deficit, the country has simultaneously experienced a substantial increase in capital inflows, resulting in a positive overall balance of payments. Capital inflows more than doubled from $274 million in 2000/01 to $648 million in 2004/05. As a result, the overall balance of payments swung from a small deficit of $1.4 million in 2000/01 to a surplus of $315.5 million in 2004/05. Foreign Direct Investment (FDI) inflows increased from $133.4 million in 2000/01 to $306.5 million in 2004/05, accounting for around half of total capital flows during this period. As a result of the balance of payments surpluses, gross foreign reserves increased from $33.3 million in 2000/01 to $238.8 million in 2004/05 (equivalent to 6.6 months of imports).

Uganda's foreign debt was projected to increase by 8.9 per cent over the previous year to $4.9 billion by end-June 2005. In 2005, total debt service was cut to $96.6 million after $95.5 million in HIPC debt relief. The net present value (NPV) of the ratio of debt to exports of goods and services was around 280 per cent in 2004, well above the Heavily Indebted Poor Countries (HIPC) Initiative threshold for sustainability of 150 per cent. However, the ratio of debt service to exports of goods and services declined from 11.2 per cent in 2004 to 9 per cent in 2005, reflecting the 10-year grace period and long maturity periods of post-HIPC borrowings.

The country's debt burden is slated to benefit from the G8 initiative for 100 per cent cancellation of debt owed to the African Development Bank (AfDB), the World Bank, and the International Monetary Fund (IMF). Given that 90 per cent of Uganda's total external debt was owed to multilateral institutions, 9 per cent to non-Paris Club bilateral creditors, and 1 per cent to Paris Club creditors, the G8 initiative would greatly improve Uganda's long-term debt sustainability and is expected to lower the country's debt to export ratio to about 50 per cent in 2015.

Even after the G8 debt cancellation initiative, however, the AfDB, the IMF and the World Bank have emphasised that Uganda should refrain from excessive borrowing so as to prevent foreign debt from increasing unsustainably again. It should also be noted that for debt owed to the World Bank and the AfDB, the G8 debt cancellation initiative is limited to concessional lenders – the International Development Association (IDA) and the African Development Fund (ADF), respectively. Over the longer term, export earnings must supplant foreign aid and loans as the main source of foreign exchange.

Structural Issues

Recent Developments

Uganda's ongoing structural reforms are aimed at improving the investment climate and increasing productivity through export-led growth. Past reforms have alleviated institutional constraints hindering development of the private sector, but substantial obstacles remain and foreign and domestic investment are insufficient to achieve the government's ambitious growth objectives. In 2005, therefore, the government initiated further measures to ease barriers to investment, including an Investment and Free Zones Bill authorising export-processing zones, and relaxed industrial land-use regulations.

Regional integration, particularly with the East Africa Community (EAC)[1], is becoming one of the main vehicles for Uganda's reforms. Uganda is also seeking to become a full member of the larger free trading bloc, COMESA[2].

The protocol establishing the EAC in March 2004 became effective on 1 January 2005, creating a customs union featuring a Common External Tariff (CET) on imported goods, including duty free access for most capital goods, agricultural inputs, medicines and medical equipment, raw materials and chemicals, and zero tariffs on most products originating within the Community. The agreement also provides for the elimination by Tanzania and Uganda of tariffs on imports of some Kenyan products within five years. However, the EAC retains import barriers on many agricultural products such as milk and dairy products, maize, rice and sugar. In addition to this progress on trade policies, EAC members have also agreed on harmonised export promotion mechanisms covering export processing zones, free trade zones, bonded warehouses and duty drawback systems.

The EAC has moved from being a customs union towards becoming a full economic union with harmonisation of monetary and fiscal policies and co-ordination among members in areas such as education, agriculture, environment, defence and the management of Lake Victoria. The Monetary Policy Co-ordinating Committee of EAC central banks was instructed to develop a strategic plan to achieve a single currency for East Africa by December 2009. A protocol on free movement of labour and capital is expected to be concluded by June 2006, with a full common market in place by December 2007.

Transport Infrastructure

The government views improved transport services as a central part of its strategy for creating a more favourable environment for private sector development. At present, the costly and slow transport system imposes a high economic penalty, especially on rural areas, in terms of shipment of produce to markets. In urban areas, one round trip on a minibus costs an unskilled worker about 30 per cent of the daily minimum wage. Very high fuel costs contribute to raising transport costs. Uganda had the 5th highest gasoline price of 25 African countries and the 23rd highest price in the world during the period 1998-2002. Although there is some economic merit in charging market prices for petroleum, in most countries fuel accounts for about 30 per cent of vehicle operating costs. In Uganda, however, it represents about 50 per cent. This high fuel cost reduces Uganda's export competitiveness and also slows the growth of the aviation industry, as most airlines find it expensive to refuel at Entebbe airport.

1. The EAC member countries are Kenya, Tanzania and Uganda.
2. The member countries of COMESA include Angola, Burundi, Comoros, DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Zambia and Zimbabwe

Given that Uganda is a landlocked country, regional transportation links to neighbouring countries are particularly important. To reach the sea from Kampala, Ugandan exports must travel 1 200 km through the northern corridor to the port of Mombasa, Kenya, or 1 600 km through the central corridor to the port of Dar-es-Salaam, Tanzania. High transportation costs, estimated at about 35 per cent of the value of exports, and long transit delays are major impediments to greater regional trade integration and improvement of the competitiveness of Uganda's exports. The government has been an active participant in a number of regional initiatives aimed at improving regional transport efficiency: the East African Trade and Transport Facilitation Project (EATTFP), aimed at enhancing transport services along key international transport corridors in East Africa; the above-described EAC customs union which seeks to accelerate trade growth in the region; and the Kenya-Uganda railway corridor, jointly funded by the African Development Bank (AfDB) and the World Bank's International Development Association (IDA), at an estimated cost of $146 million. Other initiatives include the East African Road Network Project, the Lake Victoria Safety Navigation Project, the Railways Transport Initiative Project (linking the Indian Ocean to the Atlantic Ocean through Central Africa), and the Air Transport Initiatives Project. These projects, once completed and efficiently managed and maintained, are likely to reduce transaction costs and improve Uganda's international competitiveness.

Following three years of modest growth at an average annual 5.7 per cent, the road transport share of total GDP at constant (1997/98) prices in 2004-05 was 3.2 per cent. Currently, road transport is the dominant mode of transportation, carrying over 90 per cent of passengers and freight, as well as providing the only means of access to rural areas. The length of the road network is estimated at around 72 000 km, with the national grid accounting for only 15 per cent (10 500 km). The rest consists of community roads (41 per cent), district roads (38 per cent), urban roads (5 per cent), and private roads (less than 1 per cent). Only 30 per cent of the national grid and 5 per cent of urban roads are paved; all other roads are wholly unpaved. With respect to national roads, 20 per cent are rated as "good", 62 per cent as "fair", and 18 per cent as "poor/bad".

The government has made substantial investments in road transport. During the period 2002/03 to 2004/05, total expenditure on national road improvement and development amounted to $365.8 million. Nevertheless, the road network remains inadequate, given that the growth of traffic exceeds the growth of roads and that insufficient maintenance is leading to deterioration of the state of existing roads. Deficiencies in the government's regulatory capacities at both national and local levels are also contributing to the poor state of the network. For example, according to a 1998 study, insufficient enforcement of axle load and traffic flow regulations allows about 40 per cent of heavy vehicles to travel with loads exceeding the permitted limits.

The contribution of rail transport to the economy in 2004-05 was 0.13 per cent of value added at constant (1997/98) prices, while average annual growth was 0.4 per cent in 2001-04. The country's railway network includes the 251 km Main line (Kampala – Malaba), the 333 km Western line (Kampala – Kasese), the 502 km Northern line (Tororo – Pakwach), the 140 km Busoga loop line (Mbulamuti – Busembatya), the 9 km Kampala – Port Bell spur line and various shorter branches for a total 1 241 km. Only about half of the system is operational. The tracks, locomotives and other equipment are old and in poor condition, resulting in falling cargo hauling capacity. The railway system presently carries approximately 1 million tonnes of cargo on the main route between Kampala-Port Bell and the Kenyan border at Malaba/Kisumu and Mwanza (Tanzania) on the shores of Lake Victoria, compared to about 0.8 million tonnes in 2000. However, commercialisation of rail services in 1992 led to services being suspended on the Western, Northern and Busoga lines. The Uganda Railway Corporation (URC), which manages the sector, had suffered cumulative losses of 63 billion shillings as of end-June 2003. The dilapidated condition of the rail system results in inadequate service and slow delivery of merchandise.

Water transport had been a common transport mode in the early and mid-1900s, with the East African Railways and Harbours operating passenger steamer services on Lakes Victoria, Albert and Kyoga and on the navigable sections of the River Nile. The water transport system never recovered from the 1961 flooding, however, and has steadily deteriorated in the absence of further investment. URC had until recently been operating three wagon ferries on Lake Victoria between Port Bell and Kisumu (Kenya) and Mwanza (Tanzania). In a recent accident, however, one ferry sank and another was severely damaged. This accident led to cancellation of the insurance on the remaining vessels and the suspension of all operations. Inland water transport in Uganda is characterised by obsolete vessels, poor landing facilities and incoherent oversight. With the exception of the construction of a $5 million ship to operate between the Ssese Islands on Lake Victoria and Port Bell and a few ferries, inland water transport in Uganda is dysfunctional. The most urgent measures to be taken involve repair of the lake landing site infrastructure, provision of more ferries, and improved enforcement of safety regulations.

Air transport and allied services accounted for 0.4 per cent of GDP at constant (1997/98) prices in 2004-05 following three years of growth at a brisk annual average of 13.7 per cent. This high growth rate in the sub-sector reflects booming exports of fresh produce to Europe and growth in tourism. Despite this strong growth, the airline sector suffers from the absence of a strong domestic airline which would raise traffic volume and help to make Entebbe Airport a major regional hub. Other challenges include the heavy burden of maintaining non-commercial services at regional airports and under-funding of the Civil Aviation Authority (CAA).

The Ministry of Works, Housing and Communications (MWHC) is charged with overseeing the transport system as a whole and regulates the national road system. An autonomous Road Agency is expected to be created in the very near future. A Road Agency Formation Unit (RAFU) has been set up as a precursor to the future Road Agency.

The national roads are developed and maintained by the Ministry of Works, Housing and Communications (MWHC). District, urban, and community roads are maintained and regulated by authorities at their respective local levels.

Regulatory and policy guidelines for the railways, water transport and air transport sub sectors are established by the MWHC but direct supervision is the responsibility of the Uganda Railways Corporation (URC) and Civil Aviation Authority (CAA) respectively. The URC was established in 1977 after the collapse of the East African Community (EAC). The CAA has been operational since 1991 although the formal statute authorising it was not put in place until 1994.

The policy framework for the transport sector is derived from the overall Poverty Eradication and Action Plan (PEAP) objectives. The PEAP policy framework for the transport sector generally favours greater involvement of the private sector, whenever possible, to increase efficiency and reduce costs. Road construction is recognised as still mainly the purview of the public sector but railways and air transport should be led by the private sector, especially considering the limited availability of public funding for the development and financing of transport infrastructure. In 2005, the government provided a long-term budget envelope of $181 million for the transport sector, a sum which is forecast to rise to $283 million in constant dollar terms in 2013/2014. On average, the government plans to invest about $140 million per year in new infrastructure over this period. These figures fall well short of the $3.1 billion long-term, multi-modal transport investment envisaged by Uganda's National Transport Master Plan for the period 2005-15.

The government favours public-private partnership (PPP) schemes as a way of involving the private sector. The modalities for the PPPs are being worked out in conjunction with the privatisation agency. The Ministry of Works and Transport plans to commission a study in 2006 to investigate the viability of adapting PPP principles to Uganda's transport sector. Improvement in rural roads is another high priority of the PEAP with the aim of helping to alleviate rural poverty through greater agricultural production.

The following development partners play a significant role in financing infrastructure investment in Uganda: the International Development Association (IDA), the European Union (EU), the African Development Bank (AfDB), the Danish International Development Assistance (DANIDA), the Japan International Cooperation Agency (JICA), Germany's Kreditanstalt für Wiederaufbau (KFW), the United Kingdom's Department for International Development (DfID), the Arab Bank for Economic Development in Africa (BADEA) and the Nordic Development Fund (NDF). In 2004/05, international donors contributed about 4 per cent of funds for road maintenance.

Political and Social Context

Uganda's social peace threatened to unravel as the country moved towards general and presidential elections slated for February/March 2006. For the last two decades, President Museveni has governed Uganda under a "Movement System", a *de facto* single party without any opposition. The political scene has been transformed with the opening of the upcoming elections to other political parties. After a referendum, Museveni's Movement System was transformed into the National Resistance Movement Organization (NMRO), a political party. The NMRO's election prospects were enhanced by several amendments to the Constitution and other Acts of Parliament, including the Presidential and Parliamentary Elections Acts. Most notably, the constitutional limit on the President's tenure of office to two terms was abolished in what appeared to the opposition to be a blatant manipulation to keep President Museveni in office. Although 36 new parties have registered, only six of these parties have fielded qualified candidates for the 2006 presidential election and none seems strong enough to challenge the NMRO's power.

President Museveni's tactics have led to considerable dissatisfaction, even within NMRO ranks. Some NMRO members have split off and created the largest opposition party, the Forum for Democratic Change (FDC), which was expected to receive sizeable electoral support even if it was thought unlikely to win. Political tensions came to the boil following the arrest of FDC leader Kizza Besigye for alleged treason and rape on apparently flimsy evidence. Riots took place in Kampala and the situation was tense. As a result of these developments, donors withheld substantial budget support from the government. Resumption of high aid inflows appeared to be dependent on whether the elections took place on schedule and whether or not they were perceived to be transparent and fair.

Security problems also continue to threaten Uganda's democracy. The long-running conflict in the north of the country with the brutal Lord's Resistance Army (LRA) continues to pose serious challenges for the government. Tense relations with Rwanda have been fostered by instability in the Democratic Republic of Congo, where rival militias, loosely supported by Uganda and Rwanda, continue to battle.

Notwithstanding these political and security tensions, Uganda has made significant progress in improving governance. A National Integrity Survey in 2003 revealed some reduction in perceptions of the scale of corruption, although it remains a significant problem. Corruption was particularly noted in public procurement, where it drives up the cost of public investment and lowers the quality of public services. To correct this, the Ugandan government has reaffirmed its commitment to good governance as a cornerstone of its fight against poverty via the National Strategy to Fight Corruption and Build Ethics and Integrity in Public Offices, which runs over the 2004-07 period. The programme's momentum was slowed, however, by a court ruling that the government's anti-corruption Leadership Code violates the constitution. The government is currently finalising revisions to address these concerns.

After nearly a decade of implementation of the Poverty Eradication Action Plan (PEAP), poverty in Uganda has fallen but remains high. At the inception of the PEAP in 1996/1997, 44 per cent of the population was classified as poor. According to the

Ugandan National Household Survey 2003 (UNHS II), the percentage of people living in poverty has fallen to 38 per cent, corresponding to 8.9 million Ugandans. On the other hand, the 2003 figure is significantly higher than that of 2000, when 34 per cent of the population (approximately 7.2 million Ugandans) was estimated to be living in poverty. Between 1999 and 2003, the absolute number of poor people increased more in rural areas than in urban areas even though the proportionate rise in poverty was actually higher in urban areas. The rise in poverty has been particularly marked in households where agriculture is the main occupation, with crop farmers worse off than those involved in other agricultural activities. Income inequality in Uganda also increased by 23 per cent between 1997 and 2003, with urban areas experiencing higher income inequality growth - 37.5 per cent - than rural areas, where income inequality increased by only 9.5 per cent during the same period.

Under the Health Sector Strategic Plan (HSSP), some headway has been made in the provision of primary health care services, as well as in the building of new health centres and the upgrading of others. Access to health care has also improved following the elimination of patient co-payments. Yet, life expectancy was only 43.1 years in 2002, and child and maternal mortality remain high. In 2002, the mortality rate for children under five was 141 per 1000 births; in 2001, the most recent year for which data is available, the maternal mortality rate was 880 per 100 000 live births. The health care system continues to suffer from shortages of drugs, absence of qualified health personnel, insufficient preventive primary health care, poor sanitation, and high prevalence of malaria and HIV/AIDS. Malaria is the leading cause of death in Uganda, and is estimated to cause 51 per cent of all infant deaths in the country. Fortunately, Uganda's HIV/AIDS prevalence rate declined from around 20 per cent in 1991 to 6.5 per cent in 2002, and has since stabilised at that level; the government aims to reduce it to 5 per cent by 2005/06.

Since introduction of the Universal Primary Education (UPE) policy in 1997, the government has steadily increased access to primary education through construction of new public schools using the Schools Facilities Grant (SFG) scheme and the provision of assistance to community and private schools. The UPE has significantly raised access to primary education for the poor and for girls, notably eliminating the gender gap. Gross primary school enrolment increased from 3.4 million in 1996 to nearly 7 million in the early 2000s and net primary enrolment rates increased from 62 per cent in 1992 to nearly 90 per cent in 2005. There were also significant improvements in the pupil-teacher ratio, pupil-classroom ratio, and pupil-textbook ratio.

In spite of the progress made on primary education, enrolment rates in secondary and tertiary education remain low. The latest available evidence suggests that average net secondary school enrolment in 2002 was 16.5 per cent (15.6 per cent for females and 17.4 per cent for males), up from 8.1 per cent (7 per cent for female and 9.3 per cent for males) in 1999. In terms of tertiary education, little progress was made on enrolment, as only 3 per cent of the tertiary school age population (2.2 per cent for females and 4.3 per cent for males) attended school in 2002, up slightly from 2.7 per cent (1.8 per cent for females and 3.6 per cent for males) in 1999. Nevertheless, youth and adult literacy rates in Uganda, at 69 and 86 per cent respectively, appear to be high by African standards.

Zambia

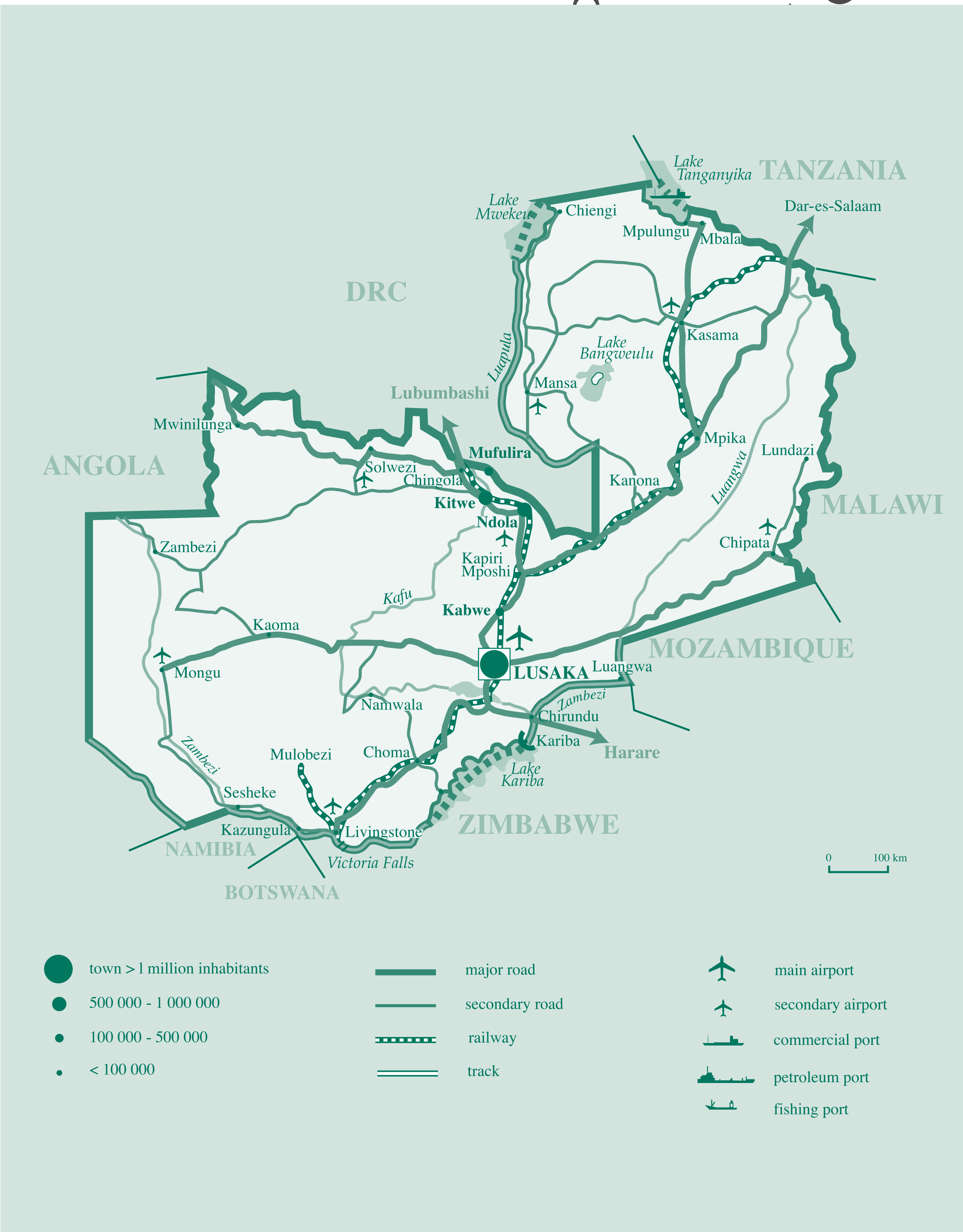
ture seule

key figures

• Land area, thousands of km²	753
• Population, thousands (2005)	11 668
• GDP per capita, $ PPP valuation (2005)	1 270
• Life expectancy (2000-2005)	37.4
• Illiteracy rate (2005)	17.8

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/027626641102

Zambia



A BUOYANT COPPER SECTOR AND STRONG growth in tourism and construction underpinned moderate growth in 2005. GDP growth of 4.5 per cent was, however, slower than expected, reflecting the drought experienced in many parts of the country, the high price of imported oil and fuel shortages, and a non-expansionary fiscal policy. Stable fuel supplies, better rainfall and continuing investment in mining are expected to boost growth to 5 and 5.5 per cent in 2006 and 2007 respectively. Achieving broad-based growth is a major challenge, since mining generates few spill-over effects for the rest of the economy, while about 70 per cent of the population still live below the poverty line.

In 2004, the authorities undertook a major fiscal consolidation effort and began reforms to improve public administration and expenditure management. This contributed to achievement of the Heavily Indebted Poor Countries (HIPC) Initiative completion point in April 2005 which triggered the cancellation of $3.9 billion of external debt. Restored donor confidence translated into larger flows of aid and an increase in the proportion provided in the form of direct budgetary support. Improved fundamentals, coupled with high world copper prices, led to a surge in capital inflows and foreign reserves and an appreciation of the kwacha.

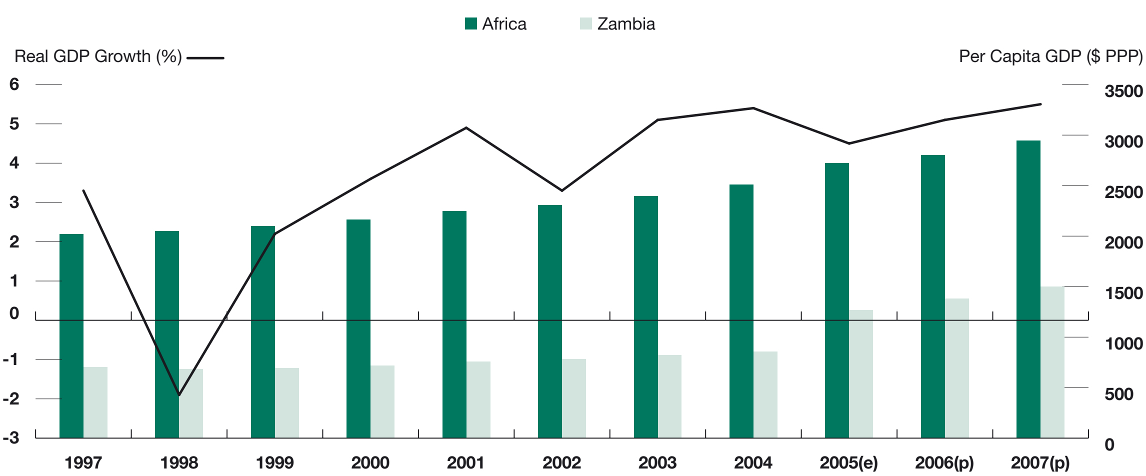
The main challenge in 2006 will be to ensure that funds generated by debt relief are dedicated to priority sectors.

Good overall performance does not excuse the country from ensuring that funds generated by debt relief are used for poverty reduction.

The new National Development Plan for the period 2006-10 will form the basis of the authorities' development agenda and poverty reduction programme. Reducing vulnerability to drought, improving resilience to terms of trade shocks and raising the employment-generation and poverty-reduction impact of growth are the main objectives of the plan. Great emphasis is placed on investment in rural infrastructure and labour intensive sectors.

The outcome of the 2006 presidential elections is not expected to change policy framework since

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



Source: IMF and Central Statistical Office data; estimates(e) and projections(p) based on authors' calculations.

the opposition remains divided and has not yet announced what policy changes it would introduce. Nevertheless, the fight against corruption, President Mwanawasa's battle-cry, has run out of steam as the Presidential Anti-Corruption Task Force has not managed to bring any successful case to court and efforts to prosecute former President Chiluba have reached a standstill.

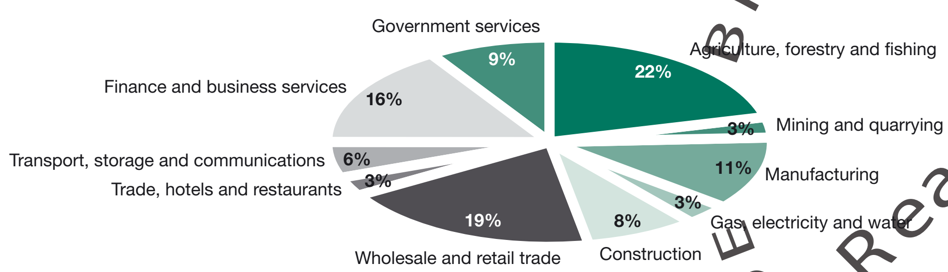
Recent Economic Developments

The recovery in agricultural production registered over the last two years was brought to a sudden stop by the poor rainfall in the southern and western regions during the 2004/05 season. Although the planted area increased by one third (from 631 000 to 835 000 hectares), production of maize – the main staple food – stood at 866 187 tonnes – a 28 per cent reduction over the previous season. The Ministry of Agriculture has attributed the decline in output to the reduced harvests of small- and medium-sized farms. Taking into account the current levels of reserves, the maize deficit is estimated at 271 000 tonnes, in marked contrast to the surplus of 185 000 tonnes in the 2003/04 season. The government has allowed importation of up to 200 000 tonnes of maize and removed the 15 per cent duty on imports to improve their flow. Other crops were similarly affected, with the exception of more drought-resistant ones, such as cassava, which registered 18 per cent growth in volume, continuing the booming trend sparked by improved seed varieties. Wheat production increased considerably (by 65 per cent), as did rice, but these are minor crops in terms of volume. Better rains in the 2005/06 season and an increase in the area planted are expected to boost agriculture production and ensure a good performance for maize and cash crops in 2006-07.

Livestock and dairy products showed considerable dynamism in 2005. Better animal disease control and processing earned Zambian beef an "A" quality grade, which makes it suitable for export. Consumption of dairy products, a sector in which foreign investment has played a key role in expanding production and quality, is constantly increasing. Horticulture and floriculture, regarded as highly promising activities, suffered from the financial collapse of the largest player in the sector which had provided input credit to 7 000 farmers. The volume of fresh fruit and vegetables fell from about 8 500 tonnes in 2004 to 6 500 tonnes in 2005. The output of cut flowers in 2005 was estimated to be about 4 000 tonnes. The sub-sector remains small – the total turnover of all Zambian firms is about equivalent to that of the largest Kenyan exporter – and, because of the low volumes produced, exporters are paying substantially higher freight rates than in other African flower-producing countries. The Association of Export Growers forecasts that production should regain the 2004 level in two years thanks to new investment. In one recent transaction, for example, Chalimbana Fresh Produce, a subsidiary of the UK's Plantation & General Investments Plc, acquired Agriflora's vegetable production assets. Continuing its strong growth performance, tobacco production – mainly for export – reached 58 000 tonnes in 2005, up from 37 000 in 2004.

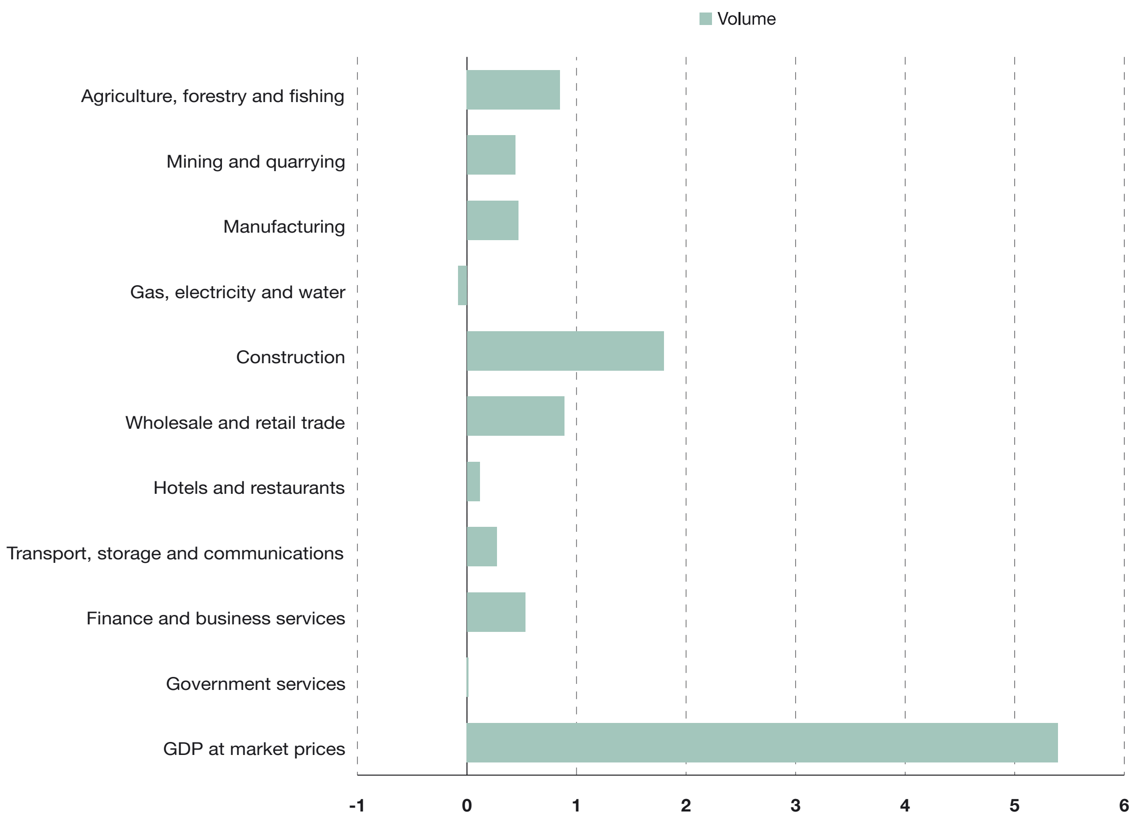
Mining and quarrying output increased by 5 per cent in the first two quarters of 2005 compared with the same period of 2004, mainly reflecting positive growth in stone quarrying and coal mining. Buoyant demand and record-high prices boosted investment and production in the copper sector, continuing the 2004 trend. However, copper production suffered from oil shortages, strikes at Konkola Copper Mine (KCM), the largest copper producer, and floods at Mopani Copper Mines (MCM), the second largest. Preliminary figures indicate that copper production increased by only 5 per cent in 2005 against 12 per cent in 2004. This contributed to the slowdown in the sector's growth, from 13.9 per cent in 2004 to 2.8 per cent in 2005. Production shortfalls at the biggest mines are expected to be offset by reinvestment in the Copperbelt mines and new production from two mines opened in 2005. Kansanshi, owned by First Quantum Minerals (Canada), is expected to produce 91 000 tonnes, while Luanshya, owned by J&W Investments (Switzerland), set a target of 50 000 tonnes for 2005, and plans to expand it to 67 000 tonnes in 2006. Total copper production is expected to increase to about 600 000 tonnes in 2006.

Figure 2 - **GDP by Sector in 2004** (percentage)



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

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



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

The manufacturing sector, dominated by food, beverages and tobacco processing, grew by 3.7 per cent in 2005, somewhat less than in 2004. Its contribution to overall GDP remains modest and is highly dependent on the performance of the upstream agriculture sector.

In the construction sector, continuing investment in mining and donor-funded work in road rehabilitation supported double-digit growth of 19.9 per cent in 2005, about the same as in 2004. This has created employment opportunities for skilled artisans like bricklayers, blacksmiths, plumbers and electricians. Official figures underestimate the size of the sector since investment in private commercial and residential housing estates is mainly informal. The sector is polarised around a few large foreign contractors and many small enterprises which lack financial and technical capacity and mainly work as subcontractors. Strong growth should continue in 2006 as new infrastructure rehabilitation and housing projects are expected to start.

Tourism recorded double-digit growth of 12.1 per cent in 2005 compared to 6.4 in 2004, thanks in part to the "Visit Zambia Campaign," which marked the 150th anniversary of the first sighting of the Victoria Falls. The country's four international airports – Lusaka, Livingstone, Mfuwe and Ndola – recorded an increase in international passenger arrivals. On a cumulative basis, international passenger arrivals in the year to November 2005 were 202 121, up by 7 per cent from 188 257 over the same period in 2004. The sector should become a sustainable source of growth as transport infrastructure improves, especially airports and park roads, and a newly streamlined regulatory framework enters into force.

Against a background of increasing investment in the mining, tourism and transport sectors, private gross capital formation was the main driver of growth in 2005 and is expected to continue to be so in 2006 and 2007. In parallel, copper exports will increase, although less rapidly than imports of capital goods, so that a slight deterioration in external demand is expected in 2006 and 2007.

Growth in private consumption appears to have slowed in 2005, due to the poor performance in the agricultural sector. Conversely, government consumption, which contracted in 2004 in the context of a restrictive budgetary stance, moderately increased in 2005 and is projected to average 15 per cent of GDP over the forecast period as the 2006 presidential and legislative elections approach and HIPC funds are channelled towards poverty reduction programmes. Public gross capital formation is also expected to increase reflecting donor funded investment in infrastructure.

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Gross capital formation	**14.6**	**22.0**	**25.6**	**25.1**	**24.4**	**24.9**	**25.9**
Public	5.4	11.8	11.4	8.9	8.3	8.5	8.9
Private	9.2	10.2	14.2	16.2	16.2	16.4	16.9
Consumption	**91.0**	**91.3**	**87.1**	**81.6**	**81.4**	**81.4**	**81.4**
Public	17.5	11.9	14.6	14.5	14.7	15.0	15.0
Private	73.5	79.4	72.6	67.1	66.7	66.3	66.4
External sector	**-5.5**	**-13.4**	**-12.7**	**-6.7**	**-5.9**	**-6.3**	**-7.2**
Exports	33.4	28.6	28.9	34.2	30.4	28.1	25.5
Imports	-38.9	-42.0	-41.6	-40.9	-36.3	-34.4	-32.7

Source: IMF and Central Statistical Office data; estimates(e) and projections(p) based on authors' calculations.

The overall budgetary stance, however, remained restrictive in 2005, and is expected to remain so in 2006 and 2007.

Macroeconomic Policies

Fiscal Policy

At the end of 2005, the authorities finalised the fifth National Development Plan which succeeds the Transitional Development Plan in shaping governments priorities to sustain and broaden the economic gains achieved in the last four years. Rural infrastructure, agricultural development and measures to combat the HIV/AIDS pandemic constitute the core of the plan. Although growth is expected to be driven mainly by mining and construction, investment in rural infrastructure and support to labour-intensive sectors, such as agriculture and manufacturing, are seen as essential to increasing employment and reducing poverty.

In line with the fiscal consolidation efforts undertaken in 2004, estimations for 2005 indicated that budgetary performance was broadly on track, thanks to the combined effect of reduced debt service following achievement of the HIPC completion point and lower government borrowing, which declined from 5.2 per cent of GDP in 2003 to an estimated 1.9 per cent in 2005. In addition, the government engaged in important efforts to limit public expenditure. For example, the wage bill was maintained below 8 per cent of GDP, while interest payments declined to 2.7 per cent of GDP in 2005 from 3.9 per cent in 2003. In parallel, budgetary allocations to social sectors were in line with the target. Expenditures on education amounted to 24 per cent of the budget and were mainly used for the recruitment of 8 000 teachers.

Government revenue was slightly lower than expected, owing to a temporary waiver of import duty and excise taxes on petroleum products to alleviate the impact of the fuel crisis. Nevertheless, thanks to increased donor support and careful control of expenditure, the overall budget deficit is estimated to have decreased to 2.3 per cent of GDP in 2005, from 2.8 per cent in 2004.

Zambia remains highly dependent on donors' assistance which finances some 30 per cent of the government budget. The commitment to maintain fiscal discipline and improve budget execution (which is estimated to have increased to 70 per cent in 2005 from 40 per cent in 2004) has brought renewed credibility to the government. This has led to new donor pledges to increase aid volumes (complementing resources released by debt relief), improve their predictability and provide a greater proportion in the form of direct budgetary support.

The start of implementation of a new Public Expenditure Management and Financial Accounting system (PEMFA) last year is considered a cornerstone for improving expenditure oversight and strengthening budget execution. Encouraged by this reform, the number of donors providing budgetary support is expected to increase from five to seven in 2006, with total budgetary support expected to account for 28 per cent of grants by 2007, compared to 17 per cent in 2005[1].

The 2006 budget, entitled "From sacrifice to equitable wealth creation", suggests that priority will be given to financing infrastructure rehabilitation (mainly through donors' funds), education and health. Budget allocations to education and health are expected to rise respectively by 40 per cent to K1 273 billion and by 20 per cent to K503 billion. At the same time, government will focus on a gradual decentralisation of government functions and resources to the district level and on tracking the effectiveness of public expenditures through public expenditures tracking surveys (PETS).

On the revenue side, in line with the Private Sector Development (PSP) Initiative, the government has introduced a series of tax incentives in an effort to attract new investment and consolidate existing ones. Overall, the government proposes a cut of pay-as-you-earn taxes, a reduction of the upper corporate tax rate for banks from 45 to 40 per cent, and the extension of tax incentives for copper and cobalt mining to that of all other base metals. The consequent loss of revenue is expected to be compensated by efforts to improve tax administration and collection and broaden the tax base by bringing the informal sector further into the tax net.

Continuing efforts to improve the quality and coherence of spending and enhance revenue collection, in tandem with higher and more predictable donor support, contribute to creating a window of opportunity for completing growth-enhancing reforms. At the same time, the government faces difficult trade-offs for 2006. Resources freed by debt cancellations – amounting to $127 million in 2006 – which should strengthen poverty-reduction spending, compete with other compelling short-term priorities, including voter registration, the general elections and the constitutional review process. Increases in spending, however, are expected to be more than compensated by higher donor support and a reduction of interest payments on public

1. Budget support amounts to $101 million, $137.56 million, and $130.63 million in 2006, 2007, and 2008, respectively.

Table 2 - Public Finances (percentage of GDP)

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Total revenue and grants[a]	**24.9**	**26.1**	**25.0**	**23.9**	**23.5**	**24.0**	**23.7**
Tax revenue	18.8	17.4	17.4	17.6	16.7	17.0	16.7
Grants	5.1	8.3	7.0	5.6	6.0	6.3	6.3
Total expenditure and net lending[a]	**26.0**	**31.8**	**30.9**	**26.8**	**25.8**	**25.8**	**25.3**
Current expenditure	18.4	19.4	19.5	18.0	17.6	17.3	16.4
Excluding interest	*14.3*	*15.4*	*15.6*	*14.5*	*14.8*	*15.3*	*15.3*
Wages and salaries	6.3	8.0	8.4	7.8	7.9	8.1	8.0
Interest	4.1	4.1	3.9	3.5	2.7	2.1	1.1
Capital expenditure	7.6	11.8	11.4	8.8	8.2	8.5	8.8
Primary balance	**3.1**	**-1.6**	**-2.1**	**0.6**	**0.4**	**0.3**	**-0.5**
Overall balance	**-1.0**	**-5.7**	**-6.0**	**-2.8**	**-2.3**	**-1.8**	**-1.6**

a. Only major items are reported.
Source: Ministry of Finance and Economic Development and IMF data; estimates (e) and projections (p) based on authors' calculations.

debt. Overall, the budget deficit is expected to decline to 1.8 and 1.6 per cent of GDP in 2006 and 2007 respectively.

Monetary Policy

The Bank of Zambia seeks to contain inflation by controlling money supply growth, increasingly through open-market operations. The policy target is to lower inflation to around 10 per cent in 2006 and to a single digit by 2007. To this end, the bank began tightening liquidity in mid-2004. As a result, the rate of growth of broad money fell from a high of 36.4 per cent in July 2004 to 10.8 per cent in September 2005. Inflationary pressures were also eased by the 27 per cent appreciation of the currency experienced in 2005, which offset to some extent the impact of fuel and food price increases. Thus, after increasing to 19.5 per cent in September 2005, inflation declined to 15.9 per cent by the end of the year – its lowest level in the past 10 years.

In November, the kwacha dropped below the K4 000 per US dollar level for the first time since January 2002 and settled at K3 255 per US dollar on 30 November 2005. The sudden appreciation of the currency largely reflects greater inflows of foreign exchange (gross international reserves amounted to 2.3 months cover of imports in November 2005, well above the stated objective of at least 1.3 months for the year), stemming from foreign investment, increased exports from mining, and large inflows of official development assistance which were heavily concentrated towards the end of the year. Following attainment of the HIPC completion point, the government's demand for foreign currency has fallen, with a concomitant improvement in Zambia's creditworthiness; in turn foreign investors' demand for local Treasury bills has experienced a significant increase. Despite concerns over the loss of competitiveness of non-traditional exports, the Bank of Zambia did not intervene, relying instead on market forces to stabilise the currency through the broad-based, inter-bank foreign exchange trading system. In mid-December, the Energy Regulation Board reduced petroleum product prices by 11 per cent, while reduction in mealie meal prices took effect from January 2006. Against the background of improved economic fundamentals, expected increases in donor support and a projected increase in the output of copper at higher prices, the current value of the kwacha is expected to be sustainable. The strengthening of the currency, combined with lower pressure on food prices resulting from an improved harvest and the continuation of a slightly restrictive or neutral fiscal stance is expected to bring average inflation down to 14 per cent and 9.5 per cent in 2006 and 2007.

Increasing commercial banks' credit to the private sector is another of the central bank's objectives. To this end, the reduction of statutory reserve requirements, coupled with lower government borrowing, have freed up resources for private-sector lending, which expanded by 40 per cent in 2004 and 35 per cent in 2005 as banks rebalanced their portfolios in response to reduced returns on foreign exchange activities. These positive developments notwithstanding, the private sector credit to GDP ratio is, at 6 per cent, amongst the lowest in sub-Saharan Africa. Moreover, structural constraints to lending experienced by the banks suggest that lending rates are likely to remain high at an average 35 per cent. In order to give a real boost to lending, banking regulations need to be strengthened through, among other things, a revision of the bankruptcy law and better contract enforcement.

External Position

Trade has emerged as a key policy area in 2005, with the concurrent launch of the Integrated Framework for Trade-related Technical Assistance to Least-developed Countries (IF) and Zambia's election to chair the meetings of the 50 Least Developed Country (LDC) members of the World Trade Organisation (WTO). Thanks to the IF, the government will receive substantial and co-ordinated support for strengthening its capacity to deal with regional and multilateral trade issues, as well as to develop its export strategy. In this respect, the Minister of Trade and Industry has taken a strong position in preparation for the Hong Kong ministerial meeting and advocated larger financial commitments to provide aid for trade to the LDC group.

On the regional side, discussions continued on the establishment of the Common Market for Eastern and Southern Africa (COMESA) Customs Union, originally planned for 2005. Differences over desired common external tariff rates and slower than expected implementation of the Free Trade Area Agreement (eight of 19 members still maintain tariffs, albeit preferential ones, on imports originating from the other members) led to postponement of establishment of the Customs Union to a future date. Zambia is also participating in the Southern African Development Community (SADC), its major trading partner, and the latter's Preferential Trade Agreement.

Although benefiting from a variety of preferential market access initiatives, including the EU Everything-But-Arms initiative (EBA) and the US African Growth and Opportunity Act (AGOA), the stringent rules of origin of these schemes, combined with serious domestic supply-side constraints, continue to hamper the realisation of their full export potential. Both initiatives have generated only negligible additional exports for Zambia compared to the pre-existing Generalised System of Preferences scheme. The benefits from the AGOA have been indirect, through increased cotton exports to South Africa, which then exports clothing to the US market.

Although OECD countries remain an important export market, accounting in 2004 for 43 per cent of total exports, regional trade has picked up in recent years, boosted by the dynamism and strong investment capacity of South Africa and implementation of the COMESA and SADC preferential trade agreements. As was said earlier, the SADC is now Zambia's largest trading partner, accounting for 49 per cent of total exports in 2004 and 56 per cent of imports in 2004. South Africa is the single largest partner country, importing copper, electricity, tobacco, cotton and sugar and exporting to Zambia in return a wide range of capital and consumer goods.

Overall, external developments in 2005 continued to be favourable, boosted by continuing high copper prices, which partially offset the rise in the oil import bill. Although export growth was less spectacular than the 60 per cent increase registered in 2004 (copper and cobalt exports rose by 21 per cent in volume terms), total exports for 2005 are estimated to be more than $2 billion, an 18 per cent increase in current dollar terms over the previous year (in volume, copper and cobalt exports grew by 7 per cent). Copper exports still account for about two thirds of the total, although non-metal exports, mainly cash crops such as cotton, tobacco and vegetables, have expanded considerably in the recent past. As anticipated last year, horticulture and cut-flower exports have suffered from the collapse of Agriflora, the biggest vegetable and rose exporter.

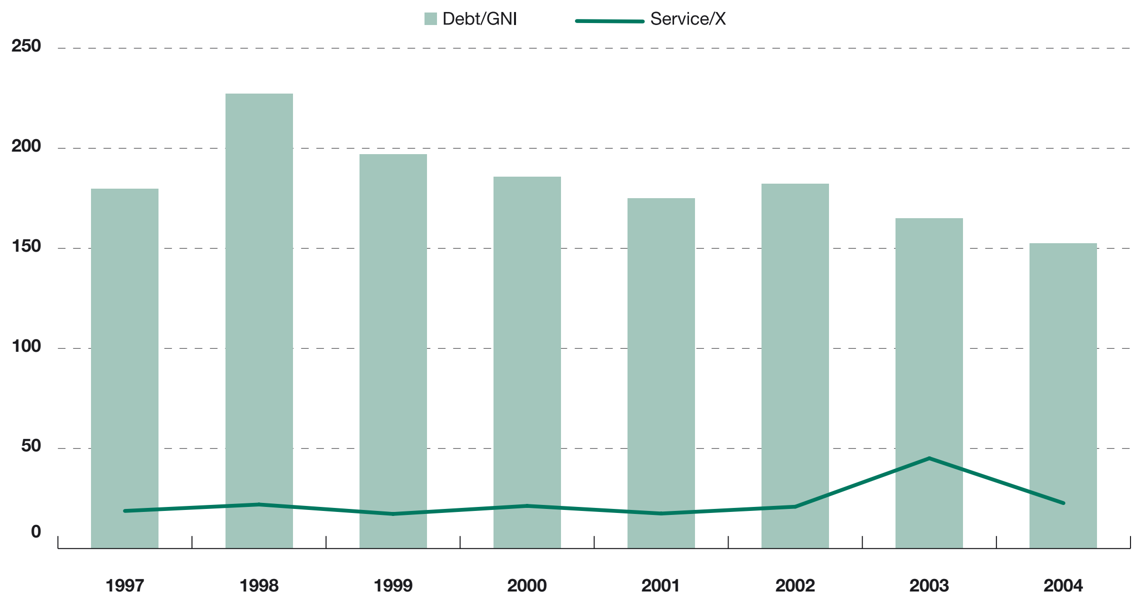
Imports continued to increase, both in dollar (20 per cent) and volume terms (9.4 per cent), mainly reflecting an increase in oil imports due to the temporary closure

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

	1997	2002	2003	2004	2005(e)	2006(p)	2007(p)
Trade balance	-0.7	-7.6	-7.9	1.0	0.6	0.0	-1.0
Exports of goods (f.o.b.)	30.5	24.3	24.4	32.9	29.4	27.3	24.8
Imports of goods (f.o.b.)	-31.1	-31.9	-32.2	-31.9	-28.8	-27.3	-25.8
Services	-4.8	-6.5	-5.5	-4.0			
Factor income	-5.2	-4.1	-3.4	-7.8			
Current transfers	4.7	2.0	-0.1	-0.5			
Current account balance	**-6.1**	**-16.2**	**-16.9**	**-11.3**			

Source: Bank of Zambia and IMF data; estimates (e) and projections (p) based on authors' calculations

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

of the Indeni refinery and sustained demand for capital goods generated by foreign investment and refurbishment in the mining sector.

The trade balance is expected to slightly deteriorate in 2006 and 2007. Copper export volume should continue to grow strongly at about 8 per cent but lower international prices are expected to lead to a more moderate increase in value. Furthermore, imports will rise by an estimated 12 per cent, reflecting investment in mining and infrastructure rehabilitation-related expenditures. The prospects for non-metal exports are less clear cut. The sector is likely to suffer somewhat from the appreciation of the kwacha. Although a stronger currency could drive down the price of imported inputs, the net effect will also depend on the relative import content of the various sub-sectors.

Besides currency considerations, other obstacles remain to the expansion of non-metal exports and improvement of their international competitiveness. Horticulture and livestock have considerable potential but suffer from structural bottlenecks, especially the high cost of finance and transport and limited certification capacity, which keep production volumes low. Lack of compliance with sanitary and phytosanitary barriers still represents a major obstacle to expanding agricultural exports to the EU and US markets.

The combined effects of the phasing out of the EBA sugar protocol (2006-09) and the overall reform of the EU sugar regime (2006-15) are likely to have a significant impact on the agricultural sector. On the one hand, producers will face an important, although gradual, reduction in the EU raw sugar reference price, even though the EU guaranteed price will still be 50 per cent higher than the world price. On the other hand, while the price cut would negatively affect revenue from existing export quotas, the phasing out of the EBA sugar protocol, culminating in duty-free and quota free access from 2009, will open up opportunities to expand export volumes and broaden the range of products supplied.

At end-2004, Zambia's debt stock was estimated at $7.1 billion. Of this, about 56 per cent was owed to multilateral creditors, 43 per cent to bilateral creditors and a small balance of 1 per cent to commercial creditors.

Achievement of the HIPC completion point in April 2005 triggered an external debt cancellation of $3.9 billion over a period extending to 2023. Out of the $3.9 billion, some Paris Club creditors have already committed themselves to cancelling the $1.4 billion of debt owed to them and to grant additional debt relief of $393 million.

Following the positive outcome of the review in December 2005, Zambia has also been granted multilateral debt relief. The IMF will provide 100 per cent debt relief on all debt incurred by Zambia before 1 January 2005 which is still outstanding. This relief amounts to $577 million. Additional debt relief is expected from the World Bank and the African Development Bank in 2006.

Given the above developments during 2005, the external debt stock will be reduced substantially in 2006, triggering lower external debt service payments and in turn providing more resources for poverty reduction priorities.

Structural Issues

Recent Developments

The promotion of the private sector and the reform of parastatal enterprises constitute, along with public sector reform, the pillars of the structural reform agenda, which gained momentum in 2004 under the threat of missing HIPC completion point triggers.

At the government's request, the World Bank conducted an assessment of Zambia's business regulations and overall investment climate in 2004. The assessment echoes the concerns of the private business sector regarding such issues as business registration, land acquisition, visa and work permits, taxation and labour legislation. The proposed new investment code has encountered strong resistance; especially because of fears that the generous incentives proposed to attract new investors could result in substantial loss of tax revenue. It was not implemented. Neither was the planned one-stop shop for new investment. Because of similar fears of revenue loss, approval of the Export Processing Zone is still pending.

Some progress was observed in 2005, mainly in the privatisation and commercialisation of large parastatals. The sale of a 49 per cent share of ZANACO, which was stalled in 2004 after negotiations with South Africa's ABSA collapsed, seem to have reached a positive conclusion with the choice of the Netherlands' Rabobank as preferred bidder. The choice reflected the AAA credit rating of this bank and its proven experience in providing finance to rural areas in developing countries. This was coherent with the government's desire to maintain and strengthen the large rural network operated by ZANACO as an instrument to improve farmers' access to credit. The transaction has been jeopardised, however, by an order from the Lusaka High Court to suspend negotiations following an application from a member of parliament whose own bid was unsuccessful.

As part of the ongoing restructuring of the financial sector and in accordance with the Financial Sector Development Plan approved in 2004, the

National Savings and Credit Bank (NSCB) and the Development Bank of Zambia (DBZ) submitted to the Bank of Zambia at the end of 2005 detailed plans for their incorporation under the Companies Act. The cabinet approved a repeal of some sections of these two non-bank financial institutions' statutes which were in conflict with the Banking and Financial Services Act. In September 2005, IFAD approved a $14 million Rural Finance Programme, which includes a $2.15 million to recapitalise the NSCB and develop its capacity to provide rural banking services. In March 2005, DBZ signed a strategic partnership agreement with the Export-Import Bank of India, which had already injected $1.4 million into the bank's capital base.

The process of commercialisation of the Zambia Electricity Supply Corporation (ZESCO) is underway, with the appointment of a new Board of Directors, dominated by private sector representatives. A performance review of the new governance structure is scheduled for mid-2006. Considerable investment has been secured, moreover, for expanding power-generation capacity. ZESCO has signed a memorandum of understanding with Farab International of Iran for building a 120 megawatt hydroelectric power plant on the Kafue River and with Sinohydro of China for an even bigger power plant at the Lower Kafue Gorge (600 megawatt).

The government is still pondering over the commercialisation strategy to adopt for ZAMTEL, the national telecommunication company, which owns the monopoly of fixed lines, the international telecommunication gateway and Cell-Z, one of Zambia's three mobile operators. Following the acquisition of Telecel by South Africa's MTN, competition for the rapidly expanding mobile market has heated up, with massive investment to expand network coverage to rural areas.

High expectations were also generated by the adoption by a public-private forum of a far-reaching Private Sector Development (PSD) Initiative, endorsed by government, the private sector and the donor community at the Livingstone Forum in 2004. Although a number of steps were taken to strengthen, for example, the capacity of private sector associations and establish a business forum to institutionalise public-private dialogue, overall implementation has been very weak. Similarly, the plan to regroup and rationalise the five agencies in charge of private sector development under a Zambia Development Agency has not advanced and is not likely to do so before a new cabinet is installed in 2006, notwithstanding the recent announcement by the Minister of Finance during his 2006 budget speech. On the positive side, most donors have signed a memorandum of understanding with the government along the lines identified by the PSD Initiative and formed a dedicated group chaired by a lead donor (the Netherlands). Some donors have gone further and provided some initial funding for this initiative.

In accordance with the National Agricultural Policy 2004-15, the government is committed to fostering private-sector development in agriculture, disengaging from direct intervention and limiting itself to the provision of public goods such as rural infrastructure, basic research, disease control and market information. Promoting market-oriented agriculture remains one of the most challenging policy priorities. Farmers lack access to inputs at affordable prices and credit more generally, and find it difficult to market their products. Agribusiness firms and buyers have set up out-grower schemes, often supported by NGOs and donors, to strengthen links with and assist their suppliers by, for example, guaranteeing sales at pre-determined prices and, in some cases, providing technical assistance, subsidised fertilisers, and extension services. These initiatives have been quite successful in the cotton and tobacco sectors, while problems of contract enforcement and side-selling to competing buyers have limited the development of similar schemes in horticulture.

Owing to persistent credit-constraints, the government continues to provide subsidised fertilisers to small farmers through the annual Fertiliser Support Programme. The programme is however criticised by stakeholders for being excessively costly and hindering the emergence of a functioning fertiliser distribution system.

Transport Infrastructure

Zambia is a landlocked country, which shares borders with eight countries and therefore constitutes a potential regional hub with, notably, the north-south transport corridor, linking DRC with South Africa and Tanzania and improved transport links with Angola. However, the current network is not designed to take advantage of the strategic location of the country in the sub-region. In addition, internal connectivity is hampered by the presence of several water crossings, long distances and low population densities. Poor infrastructure entails high transport costs (estimated to account for 60-70 per cent of the cost of production of many goods), limits the development of markets, reduces mobility and exacerbates the consequences of food crises. Road accidents and associated deaths, injuries and property damage impose an additional heavy toll on the country and its people.

The transport network in Zambia includes all four modes of transportation: rail, road, civil aviation, and inland water transport. Historically, the physical transport infrastructure was developed to link Lusaka and the Copperbelt with the main north-south routes.

Out of a total road network of 67 671 km, only 37 000 km are gazetted, of which 18 per cent are paved, 23 per cent are gravelled and 59 per cent are dirt roads. The bulk of the formal road network was constructed during the first decade after independence and, owing to the lack of adequate maintenance through to the mid-1990s, it has gradually deteriorated. In particular, the quality of paved roads has been severely affected by systematic overloading of trucks and poor drainage, resulting in widespread potholes. The quality and practicability of dirt roads is vulnerable to weather conditions, holding back the further development of commercial agriculture, which in fact remains concentrated around Lusaka.

Institutional and resource constraints combine to explain Zambia's poor road maintenance track record. They include blurred responsibilities among road management agencies, a poor regulatory framework which negatively affects private contractors and limited and erratic budgetary transfers to the appropriate local authorities. A 15 per cent levy on fuel constitutes the chief source of financing of the Road Fund.

Rail and road mobilise about three-quarters of total goods trade, with approximately 2.2 million tonnes transported by road as compared to 400 000 tonnes by rail. In this context, improvement of road transport features prominently in the government's strategy for enhancing economic growth. In order to provide a coherent policy framework to the transport sector, the government approved a transport policy in 2002 and launched a strategic plan for the period 2003-07.

Road infrastructure programmes initially focused on the rehabilitation of trunk and district roads linking Lusaka with Coppermines. The strategy has increasingly shifted towards rehabilitation of rural and feeder roads in order to facilitate access to markets for agricultural products and to tourist areas, as well as to completion of transport corridors to neighbouring countries. There are also plans to open new alternative railway routes to the sea and, notably, to such ports as Lobito Bay (Angola), Walvis Bay (Namibia), Beira and Nacala (Mozambique).

The governance structure of the sector has also been reformed. With a view to clarifying the management and financing of the core network, three road agencies, namely, the National Road Development Agency (NRDA), the National Road Fund Agency (NRFA), and the Road Transport and Safety Agency (RTSA), have been created and became operational in 2005. Under the new configuration, NRDA is responsible for planning, procurement, supervision and monitoring the whole road network and for centralising functions which were previously split up between various line ministries. Similarly, the NRFA co-ordinates all resources for the road sector, including government and donor funding and user charges. Accordingly, the fuel levy for routine maintenance is now channelled directly to the NRFA, avoiding the slippage and erratic fund flows caused by its previous inclusion in the overall government budget. The RTSA is responsible for transport licensing, traffic safety and axle load control.

In tandem with institutional reforms, substantial donor support has been granted to the Road Sector Investment Programme (ROADSIP I) since 1997. During the implementation of its first phase, completed in 2003, progress was made in rehabilitating urban, trunk, main and district roads, while the rehabilitation of feeder roads fell far short of the target, largely because of erratic government funding and the inadequate capacity of local authorities to execute rehabilitation works. The government is currently undertaking the second phase of the programme. The 10-year ROADSIP II (2004-2013), which represents spending totalling $1.6 billion, has four main objectives: to bring the core road network (40 113 km of which over half are classified as trunk, main and district roads and the remainder as feeder, urban and parks roads) into serviceable condition; to strengthen the technical and managerial capacity of the new road authorities; to create employment opportunities in the road sector; to improve road safety and environmental management in the road sector through the establishment of procedures and guidelines.

Against a background of progressive phasing-out of donor support for road maintenance and expansion – it is expected to end altogether in 2013, the government is preparing a financial strategy to generate adequate revenues for the NRFA through the adjustment of the fuel levy and the introduction of additional user charges.

In addition, the authorities are working on ways to attract private sector participation in road construction through public-private partnerships (PPP). So far, private sector interest has been weak, discouraged by an inadequate regulatory framework. In early 2005, a process was begun to establish a policy with clear guidelines for investors, to review and strengthen the legal framework, and to increase the capacity of both public and private players in managing and administering PPPs in transport infrastructure, drawing on the successful experience of neighbouring South Africa and Tanzania.

In parallel, the National Council for Construction is promoting certification for contractors and an action plan to strengthen the local road construction industry. The introduction of toll roads is considered a long-term option since such a step would need to comply with the SADC stipulation that an alternative road be provided free of charge.

The railway network is in very poor condition as a result of inadequate investment and weak management. The network consists of Zambia Railways Limited (ZRL) and the Tanzania-Zambia Railway system (TAZARA). ZRL has a 1 266 km single track network which runs from the border with Zimbabwe at Livingstone to the border with DRC, with branch lines to the Copperbelt. The 20-year concession to manage ZRL, granted in 2003 to New Limpopo Bridge Projects Investments (NLPI) and Spoornet, highlights significant problems related to the inadequacy of the regulatory framework. In particular, experts suggest that the level of investment stipulated in the agreement is too low for a railway line of this magnitude, while only 65 per cent of the concession fees owed to the government have been paid by the concessionaires, who cite a change in circumstances. Despite a reduction in the number of derailments from 400 per year to 200 (the regionally accepted level is 20), the level of maintenance remains very poor and rail volumes declined by 7 per cent in one year, with most of this decline reflecting a shift to road transport.

TAZARA, which was built by the Chinese in 1975 and is owned jointly by the Tanzanian and Zambian governments, is 1 800 km long and represents the main route for exporting copper cathodes via the port of Dar es Salaam. In recent years, copper has increasingly been channelled through the ports of Beira and Durban, reducing volumes transported on the TAZARA line. This decline has pressured Zambia and Tanzania to search for a foreign investor, although an outstanding $10 million debt to the Chinese government could discourage perspective investors. According to the Zambia Privatisation Agency, in mid-2005, the Chinese government expressed interest in participating as an investor if the company were to be privatised. However, progress on this front is not expected until late 2006.

Meanwhile, the government is seeking to develop alternative and shorter routes for copper to reach the sea. Private sector participation in the form of build, operate and transfer (BOT) projects is envisaged for railways linking the mining hubs in the Copperbelt to the Angolan port of Lobito and the Mozambican port of Nacala. Similar arrangements are being considered for linking Livingstone and Walvis Bay in Namibia for tourism purposes.

Zambia has one inland port at Mpulungu on Lake Tanganyika, which serves the three neighbouring countries of Tanzania, DRC and Burundi. Mpulungu Harbour Management Limited (MHML) was granted a concession to run the harbour in September 2000 and is currently handling 70 000 tonnes of cargo per year. Severe problems of interconnection with other modes of transportation greatly reduce opportunities for expanding capacity, however. Air transport has improved significantly in recent years. Airport infrastructure consists of four major airports (Lusaka, Ndola, Livingstone and Mfuwe), all operated by the National Airports Corporation, and 140 aerodromes or air strips. Its quality has suffered, however, from poor maintenance. Investment projects are underway to expand and modernise Lusaka and Livingstone airports and there are plans to grant concessions for all airports except Lusaka to private companies. Many airfields are used in remote areas for the distribution of food and medicines but are often in a very poor state of repair, which prevents their being used for commercial purposes.

Political and Social Context

Zambia's political situation has been stable since the Movement for Multiparty Democracy (MMD) came to power in 1991. The MMD has promoted a transition from the centrally planned economy which had been in place since independence in 1964 to a market-oriented one. The first MMD government, led by President Frederick Chiluba, launched comprehensive economic reforms but was accused of widespread corruption and political interference in economic activity. In 2001, after a failed attempt to change the constitution to allow a third mandate for the president, the chosen MMD candidate, Levy Patrick Mwanawasa, won a closely contested election and put the fight against corruption at the heart of his political programme. The opposition contested the election results vigorously but peacefully.

As part of the anti-corruption crusade, high profile members of the former administration, including Chiluba himself, were accused and put on trial in 2003. Despite two years of investigations, no one accused by the Anti-Corruption Task Force has been successfully convicted by any court yet.

Two major events polarised the political scene in 2005: the constitutional review process and the run-up to the 2006 elections. Many civil society organisations and opposition parties want to seize the opportunity of the constitutional review to amend the electoral law, replacing the current first-past-the-post system with one based on an absolute majority. The new text, which also includes changes to the executive powers of the president, was presented to parliament in December. Recent statements from the president suggest, however, that a new constitution will not be adopted until after the 2006 elections, causing further divisions between civil society, opposition politicians and the government.

Besides the thorny issue of who will run against the incumbent president, the forthcoming election is likely to entail huge costs, related to voter registration and the need to campaign throughout a large and sparsely populated territory. Fearing that these costs could reduce budget allocations to poverty-reduction programmes and to improve transparency of the electoral process, various donor countries are considering funding the elections.

According to the latest living conditions survey for 2002-03, 67 per cent of the Zambian population is classified as poor and lives below the poverty line income of K92 185. This result implies that 46 per cent of the population live in extreme poverty since their income is not sufficient to meet the cost of the minimum food basket[2], while 21 per cent, while being able to afford the food basket, still fall short of being able to acquire other non-food basic necessities. In August 2005, the cost of food alone for a family of six in Lusaka was estimated at K513 590, while that of a fully representative consumption basket stood at K1 358 990. It should be noted that the basket does not include other essentials such as transport, health and fuel. The incidence of poverty is particularly high in Northern Province (81 per cent of the population), followed by Northwestern (72 per cent), Eastern (71 per cent) and Luapula provinces (70 per cent). The lowest rate of poverty was observed in Lusaka and Copperbelt provinces (57 and 58 per cent, respectively).

Over the past two years, the health sector recorded a moderate improvement in key basic health care delivery indicators and a general decrease in the incidence of major diseases such as malaria, non-pneumonial respiratory infections and diarrhea. The drug situation generally improved with 0.79 kits per 1 000 patients opened in 2004, compared to 0.73 kits opened per 1 000 patients in 2003. In addition, immunisation coverage of children under one year old improved from 74 per cent in 2003 to 77 per cent in 2004. Nevertheless, health care delivery continues to be constrained by lack of human, material and financial resources. Allocations to the health sector declined from 8.1 per cent in 2004 to 6 per cent in 2005, although, according to the Medium Term Expenditure Framework, they are supposed to increase to 6.5 per cent in 2006. Absorption capacity at district level remains limited, the brain drain of nurses and doctors is increasing and many international NGOs compete with the public sector, offering health workers more attractive remuneration packages. According to recent estimates, there is one doctor for every 14 000 people, compared to one for 7 000 in 1984. Regional discrepancies are huge, with one doctor per 145 780 people in Luapula province, compared with one doctor per 6 660 people in Lusaka. In order to retain health workers, the government has appointed a task force to design selective incentives for personnel in remote rural areas and other sensitive locations. Health workers have been extremely hard hit, however, by the HIV/AIDS pandemic.

With an official prevalence rate of 16 per cent, in 2004, Zambia declared HIV/AIDS a national emergency and, in June 2005, the government removed the cost-sharing fee of K40 000 ($8), granting free provision of anti-retroviral (ARV) therapy. As of December 2005, about 40 000 people were receiving ARV drugs, compared to about 15 000 one year earlier. The major obstacle to improving ARV provision is lack of specialised health staff. On the prevention side, thanks to the activity of the National AIDS Council (NAC), a broad-based corporate body charged with co-ordinating a multi-sectoral, national response to HIV/AIDS, substantial progress has been made in scaling up national response through mass prevention campaigns and in increasing the number of Voluntary Counselling and Testing Centers. In addition, the Global Fund and other bilateral initiatives are channeling resources towards fighting the disease. Nevertheless, NAC considers that co-ordination with partner institutions is poor, arguing that they often set up new structures in the form of international NGOs instead of reinforcing the capacities of existing public institutions. Strengthening the role of NAC in the centralisation, co-ordination, and monitoring of HIV response is among the main priorities of the 5th National Development Plan.

After having reached 15.9 per cent of the total national budget – the 2004 benchmark for the HIPC completion point – total budget releases to education decreased to 12.5 per cent in 2005, although the figure should rise to 16.3 per cent in 2006. Over the past year, the education sector attracted significant support from donors through a sector-wide approach, which was of particular benefit to basic education at district level. The major programmes implemented dealt with expansion of school facilities, curriculum development, provision

2. The basket uses the prices of essential food and non-food items to estimate the cost of living for a family of six in Lusaka, Livingstone, Kabwe Ndola, Luanshya and Kitwe. It only highlights essential products such as mealie meal, kapenta, green vegetables, cooking oil, and milk, as well as non-food essentials such as housing water, energy and soap.

of education materials, provision of bursaries for vulnerable children and orphans, improvement of equity and gender balance and the provision of HIV/AIDS prevention education. These measures, coupled with the abolition of fees for government primary schools in 2002 and the impact of the government's post-pregnancy re-admission policy, had a positive impact on school enrolment. The gross enrolment level at basic school rose by 5.4 percentage points, from 87.7 per cent in 2003 to 93.1 per cent in 2004, while the high school enrolment level increased from 13.9 to 16.5 per cent. In spite of these improvements, the sector continues to suffer from a dramatic shortage of teachers – as budgetary constraints hamper the recruitment of additional personnel – and a very uneven distribution of teacher to pupils across the country. In some remote areas, the ratio is as high as 1:400, while, in Lusaka, it is only 1:20. In order to retain teachers, especially in rural areas, government provides rural hardship and housing allowances to deserving teachers serving in rural areas.

Part Three

Statistical Annex

All the tables in the annex are available in Excel format at:
http://dx.doi.org/10.1787/253118247771

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Methodology

Africa Total, when present, might exclude those countries whose data are neither available nor statistically relevant.

Tables 1 to 6

Where indicated, the figures are reported on a fiscal-year basis. Figures for Egypt, Ethiopia, Kenya, Mauritius, Tanzania and Uganda are from July to June in the reference year. For South Africa and Botswana, fiscal year 2005 is from April 2005 to March 2006.

Table 7. Exports, 2003

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 (1999-2003) (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, the United Kingdom and the United States.

Table 13. Demographic Indicators

Infant mortality rate: under one-year-old child deaths per live birth per year.

Total fertility rate: average number of children per woman.

Mortality under age 5: probability that a newborn infant would die before the age of 5.

Table 14. Poverty and Income Distribution Indicators

National poverty line: absolute poverty line corresponding to the value of consumption necessary to satisfy minimum subsistence needs. International poverty line: absolute poverty line corresponding to a level of income or consumption of $1 or $2 a day.

Gini index: index measuring the intensity of inequality in income or consumption expenditure distribution. Perfect equality leads to a Gini index of zero and maximum inequality to a Gini index of 100. Share of consumption: share of total consumption for a decile of the population ranked by level of consumption.

Table 15. Basic Health Indicators

Life expectancy at birth: average number of years a newborn infant would live under the hypothesis that, during its life, the conditions of mortality remain the same as observed at its birth. Life expectancy at birth with AIDS: estimated average number of years a newborn infant would live under the hypothesis that, during its life, the conditions of mortality remain the same as observed at its birth in particular the characteristics of AIDS epidemic. Life expectancy at birth without AIDS: estimated number of years a newborn infant would live under the hypothesis of absence of AIDS during its life. Undernourishment prevalence: proportion of the population that is suffering from 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, 1999-2005

The Corruption Perception Index (CPI) is a composite indicator based on surveys of business people and assessments of country analysts. 17 sources were included in the 2005 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/policy_and_research/surveys_indices/cpi/2005

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 was 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.

• **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

1. Dessus. S., D. Lafay and C. Morrisson (1994), "A Politico-economic Model for Stabilisation in Africa", *Journal of African Economies*.

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. 2005**

	Population (thousands)	Land area (thousands of km²)	Population Density (pop/km²)	GDP based on PPP valuation*** ($ million)	GDP per Capita (PPP valuation, $)	Annual real GDP growth (average over 1997-2005)
Algeria	**32 854**	**2 382**	**14**	**213 672**	**6 504**	**4.1**
Angola	**15 941**	**1 247**	**13**	**53 608**	**3 363**	**7.6**
Benin	**8 439**	**113**	**75**	**9 311**	**1 103**	4.7
Botswana**	**1 765**	**582**	**3**	**18 982**	**10 755**	**5.8**
Burkina Faso	**13 228**	**274**	**48**	**14 347**	**1 085**	**5.3**
Burundi	7 548	28	271	5 642	748	2.0
Cameroon	**16 322**	**475**	**34**	**42 196**	**2 585**	**4.3**
Cape Verde	507	4	126	2 992	5 904	6.6
Central African Republic	4 038	623	6	4 773	1 182	1.4
Chad	**9 749**	**1 284**	**8**	**16 292**	**1 671**	**9.4**
Comoros	798	2	357	1 114	1 396	2.4
Congo	**3 999**	**342**	**12**	**5 190**	**1 298**	**3.3**
Congo Dem. Rep.	**57 549**	**2 345**	**25**	**26 457**	**460**	**0.2**
Côte d'Ivoire	**18 154**	**322**	**56**	**27 282**	**1 503**	**1.1**
Djibouti	793	23	34	1 686	2 125	1.8
Egypt*	**74 033**	**1 001**	**74**	**303 505**	**4 100**	**4.8**
Equatorial Guinea	504	28	18	25 439	50 522	30.4
Eritrea	4 401	118	37	4 250	966	1.3
Ethiopia*	**77 431**	**1 104**	**70**	**79 082**	**1 021**	**3.9**
Gabon	**1 384**	**268**	**5**	**10 874**	**7 858**	**0.8**
Gambia	1 517	11	134	3 017	1 989	4.7
Ghana	**22 113**	**239**	**93**	**49 717**	**2 248**	**4.7**
Guinea	9 402	246	38	18 945	2 015	3.5
Guinea Bissau	1 586	36	44	1 182	745	- 0.7
Kenya	**34 256**	**580**	**59**	**39 177**	**1 144**	**2.6**
Lesotho	1 795	30	59	5 113	2 849	2.1
Liberia	3 283	111	29	...	...	...
Libya	5 853	1 760	3	65 647	11 215	3.4
Madagascar	**18 606**	**587**	**32**	**16 478**	**886**	**3.3**
Malawi	**12 884**	**118**	**109**	**7 468**	**580**	**2.3**
Mali	**13 518**	**1 240**	**11**	**13 079**	**968**	**5.2**

Table 1 - **Basic Indicators. 2005** *(cont.)*

	Population (thousands)	Land area (thousands of km²)	Population Density (pop/km²)	GDP based on PPP valuation*** ($ million)	GDP per Capita (PPP valuation, $)	Annual real GDP growth (average over 1997-2005)
Mauritania	3 069	1 026	3	6 876	2 241	5.1
Mauritius	**1 245**	**2**	**610**	**16 855**	**13 542**	**4.5**
Morocco	**31 478**	**447**	**70**	**152 092**	**4 832**	**3.1**
Mozambique	**19 792**	**802**	**25**	**29 080**	**1 469**	**8.6**
Namibia	2 031	824	2	14 198	6 990	4.1
Niger	**13 957**	**1 267**	**11**	**10 748**	**770**	**3.6**
Nigeria	**131 530**	**924**	**142**	**233 618**	**1 776**	**4.0**
Rwanda	**9 038**	**26**	**343**	**14 408**	**1 594**	**6.8**
São Tomé and Principe	157	1	162	268	1 710	3.1
Senegal	**11 658**	**197**	**59**	**20 349**	**1 745**	**5.1**
Seychelles	81	0.455	177	1 017	12 603	1.0
Sierra Leone	5 525	72	77	4 910	889	5.2
Somalia	8 228	638	13	...	...	...
South Africa	**47 432**	**1 221**	**39**	**544 026**	**11 470**	**3.2**
Sudan	36 233	2 506	14	85 461	2 359	7.3
Swaziland	1 032	17	59	5 646	5 469	2.6
Tanzania	**38 329**	**945**	**41**	**22 867**	**597**	**5.6**
Togo	6 145	57	108	8 945	1 456	2.1
Tunisia	**10 102**	**164**	**62**	**83 353**	**8 251**	**4.8**
Uganda*	**28 816**	**241**	**120**	**48 573**	**1 686**	**5.6**
Zambia	**11 668**	**753**	**16**	**14 819**	**1 270**	**3.4**
Zimbabwe	13 010	391	33	28 304	2 176	- 4.4
Africa	**904 804**	**30 043**	**30**	**2 432 932**	**2 724**	**4.0**

Note: * Fiscal year July (n-1)/June (n) ** Fiscal year April (n)/ March (n+1) *** Purchase Power Parity.
Sources: Population: United Nations, Department of Economic and Social Affairs, Population Division. *World Population Prospects, The 2004 Revision.*
Land Area: *African Development Indicators, World Bank.*
GDP: Various domestic authorities and IMF *World Economic Outlook.*

Table 2 - Real GDP Growth Rates. 1997-2007

	1997	1998	1999	2000	2001	2002	2003	2004	2005(e)	2006(p)	2007(p)
Algeria	**1.1**	**5.1**	**3.2**	**2.2**	**2.7**	**4.7**	**6.8**	**5.2**	**5.6**	**5.6**	**5.1**
Angola	**7.9**	**6.8**	**3.2**	**3.0**	**3.1**	**14.4**	**3.4**	**11.1**	**15.6**	**26.4**	**20.5**
Benin	**5.7**	**4.0**	**5.3**	**4.9**	**6.2**	**4.5**	**3.9**	**3.4**	**4.0**	**4.6**	**4.7**
Botswana**	**5.6**	**8.1**	**4.1**	**6.6**	**8.5**	**2.1**	**7.8**	**5.7**	**3.9**	**3.5**	**3.4**
Burkina Faso	**4.8**	**6.2**	**5.8**	**2.2**	**5.8**	**5.0**	**8.0**	**4.6**	**5.4**	**7.6**	**5.9**
Burundi	0.4	4.8	-1.0	-0.9	2.1	4.5	-1.2	4.8	5.0	5.0	5.0
Cameroon	**5.0**	**5.1**	**4.5**	**4.9**	**4.3**	**4.3**	**4.3**	**3.5**	**2.8**	**4.3**	**3.8**
Cape Verde	7.6	8.0	11.9	6.9	4.1	4.9	5.0	4.4	6.3	7.7	7.0
Central African Republic	7.5	3.9	3.6	1.8	0.3	-0.6	-7.6	1.3	2.2	3.5	4.1
Chad	**5.6**	**6.9**	**-0.5**	**-0.5**	**10.4**	**8.4**	**15.4**	**33.4**	**5.9**	**2.0**	**2.0**
Comoros	4.2	1.2	1.9	2.4	2.3	2.3	2.1	1.9	2.8	3.3	4.1
Congo	**-0.6**	**3.7**	**-3.0**	**8.2**	**3.6**	**5.4**	**0.3**	**3.6**	**8.3**	**5.0**	**2.8**
Congo Dem. Rep.	**-5.4**	**-1.7**	**-4.3**	**-6.9**	**-2.1**	**3.5**	**5.7**	**6.8**	**6.2**	**6.7**	**6.6**
Côte d'Ivoire	**5.6**	**5.4**	**1.6**	**-2.3**	**0.1**	**-1.6**	**-1.7**	**1.6**	**1.0**	**1.9**	**2.4**
Djibouti	-0.7	0.1	2.2	0.4	2.0	2.6	3.2	3.0	3.2	3.8	4.4
Egypt *	**5.5**	**7.6**	**6.1**	**5.4**	**3.5**	**3.2**	**3.1**	**4.1**	**4.8**	**5.2**	**5.4**
Equatorial Guinea	95.3	17.7	23.2	19.3	48.1	9.7	21.3	32.8	6.2	6.4	-1.2
Eritrea	7.9	1.8	0.0	-13.1	9.2	0.7	3.0	1.8	0.8	0.4	0.4
Ethiopia*	**3.7**	**-4.4**	**6.8**	**5.4**	**7.9**	**0.0**	**-2.9**	**11.4**	**6.8**	**5.8**	**6.0**
Gabon	**5.7**	**3.5**	**-8.9**	**-1.9**	**2.0**	**0.0**	**2.4**	**1.4**	**2.6**	**2.5**	**2.4**
Gambia	4.9	6.5	6.4	5.5	5.8	-3.2	6.9	5.1	4.7	4.7	4.5
Ghana	**4.2**	**4.7**	**4.4**	**3.7**	**4.2**	**4.5**	**5.2**	**5.8**	**5.9**	**6.0**	**6.1**
Guinea	4.9	4.8	4.7	1.9	4.0	4.2	1.2	2.7	3.0	4.9	5.4
Guinea Bissau	6.5	-28.2	7.6	7.5	0.2	-7.1	0.6	4.3	2.3	2.6	3.1
Kenya	**0.5**	**3.3**	**2.3**	**0.6**	**4.4**	**0.4**	**2.8**	**4.3**	**4.8**	**4.2**	**5.4**
Lesotho	8.1	-4.6	0.2	1.3	3.2	3.5	3.1	3.1	0.8	1.9	1.8
Liberia	...	...	...	...	...	...	...	...	...	...	...
Libya	4.3	-0.4	0.3	1.1	4.5	3.3	9.1	4.4	4.3	4.4	4.3
Madagascar	**3.7**	**3.9**	**4.7**	**4.7**	**6.0**	**-12.7**	**9.8**	**5.3**	**4.4**	**5.6**	**5.6**
Malawi	**6.6**	**1.1**	**3.5**	**0.8**	**-4.1**	**2.1**	**3.9**	**4.6**	**1.9**	**2.0**	**5.1**
Mali	**4.9**	**8.1**	**5.7**	**-3.3**	**11.9**	**4.3**	**7.6**	**2.2**	**5.4**	**5.5**	**5.4**

Table 2 - **Real GDP Growth Rates. 1997-2007** *(cont.)*

	1997	1998	1999	2000	2001	2002	2003	2004	2005(e)	2006(p)	2007(p)
Mauritania	2.8	3.9	7.8	6.7	3.6	2.3	6.4	6.9	5.4	26.9	7.9
Mauritius	**5.7**	**6.1**	**2.7**	**9.2**	**3.1**	**1.9**	**3.8**	**4.8**	**3.1**	**3.3**	**3.5**
Morocco	**-2.2**	**7.7**	**-0.1**	**1.0**	**6.3**	**3.2**	**5.5**	**4.2**	**2.1**	**5.3**	**4.2**
Mozambique	**11.1**	**12.6**	**7.5**	**1.9**	**13.1**	**8.2**	**7.8**	**7.2**	**7.7**	**7.9**	**7.0**
Namibia	4.2	3.3	3.4	3.5	2.4	6.7	3.5	6.0	3.6	3.8	3.9
Niger	**0.5**	**12.7**	**1.0**	**-2.6**	**7.7**	**5.3**	**3.8**	**-0.6**	**4.5**	**4.0**	**3.7**
Nigeria	**3.2**	**0.3**	**1.5**	**5.4**	**3.1**	**1.5**	**10.9**	**6.1**	**4.4**	**5.6**	**6.0**
Rwanda	**13.8**	**8.9**	**7.6**	**6.0**	**6.7**	**9.4**	**0.9**	**4.0**	**4.0**	**4.2**	**4.6**
São Tomé and Principe	1.0	2.5	2.5	3.0	4.0	4.1	4.0	3.8	3.2	4.5	5.5
Senegal	**5.0**	**5.7**	**5.0**	**5.6**	**5.6**	**1.1**	**6.5**	**6.0**	**5.0**	**5.2**	**5.9**
Seychelles	12.2	2.5	1.9	4.3	-2.2	1.3	-6.3	-2.0	-2.8	-2.0	-1.0
Sierra Leone	-17.6	-0.8	-8.1	3.8	18.2	27.5	9.3	7.4	7.5	7.1	6.5
Somalia	...	...	...	...	...	...	...	...	...	...	...
South Africa	**2.6**	**0.5**	**2.4**	**4.2**	**2.7**	**3.7**	**3.0**	**4.5**	**4.9**	**4.7**	**4.7**
Sudan	10.8	10.1	5.0	9.2	6.4	6.1	5.1	5.2	8.2	13.4	10.7
Swaziland	3.8	3.3	3.5	2.0	1.7	2.8	2.4	2.1	2.0	1.7	1.5
Tanzania	**3.5**	**3.7**	**3.5**	**5.1**	**6.2**	**7.2**	**7.2**	**6.7**	**6.9**	**7.0**	**6.8**
Togo	3.5	-2.3	2.4	-0.4	0.6	4.5	4.4	2.9	3.0	3.0	3.0
Tunisia	**5.4**	**4.8**	**6.1**	**4.7**	**4.9**	**1.7**	**5.6**	**6.0**	**4.2**	**5.3**	**5.5**
Uganda*	**5.5**	**3.6**	**8.2**	**5.4**	**5.0**	**6.4**	**4.7**	**5.9**	**5.8**	**5.5**	**5.9**
Zambia	**3.3**	**-1.9**	**2.2**	**3.6**	**4.9**	**3.3**	**5.1**	**5.4**	**4.5**	**5.1**	**5.5**
Zimbabwe	1.4	0.1	-3.6	-7.3	-2.7	-6.0	-10.0	-4.2	-7.1	-4.8	-3.6
Africa	**3.6**	**3.6**	**3.1**	**3.5**	**4.0**	**3.5**	**4.7**	**5.3**	**4.9**	**5.8**	**5.5**

Note: * Fiscal year July (n-1)/June (n) ** Fiscal year April (n)/ March (n+1).
Sources: Various domestic authorities; IMF *World Economic Outlook* and authors' estimates and forecasts.

Table 3 - Demand Composition. 2004 (percentage of GDP)

	Final Consumption			Gross Capital Formation			External Sector		
	Total	Private	Public	Total	Private	Public	Balance	Exports	Imports
Algeria	**53.0**	**38.5**	**14.5**	**32.0**	**20.4**	**11.5**	**15.1**	**40.4**	**25.4**
Angola	**75.3**	**45.9**	**29.4**	**9.2**	**4.3**	**5.0**	**15.5**	**70.5**	**55.0**
Benin	**87.9**	**75.9**	**12.1**	**20.6**	**12.5**	**8.1**	**-8.6**	**20.0**	**28.6**
Botswana**	**62.5**	**28.1**	**34.3**	**30.0**	**19.5**	**10.5**	**7.5**	**39.8**	**-32.2**
Burkina Faso	**90.0**	**70.3**	**19.7**	**20.5**	**9.0**	**11.5**	**-10.5**	**10.4**	**20.9**
Burundi	108.4	82.6	25.8	13.7	3.0	10.7	-22.0	8.9	30.9
Cameroon	**80.6**	**70.4**	**10.2**	**18.3**	**15.9**	**2.4**	**1.1**	**19.7**	**18.6**
Cape Verde	110.6	84.9	25.7	20.4	15.2	5.2	-31.0	32.3	63.2
Central African Republic	100.0	89.0	11.0	6.5	4.4	2.1	-6.5	11.8	18.3
Chad	**80.6**	**70.4**	**10.2**	**18.3**	**15.9**	**2.4**	**1.1**	**19.7**	**18.6**
Comoros	102.6	89.3	13.2	10.2	5.9	4.3	-12.8	15.1	27.9
Congo	**80.6**	**70.4**	**10.2**	**18.3**	**15.9**	**2.4**	**1.1**	**19.7**	**18.6**
Congo Dem. Rep.	**96.1**	**87.8**	**8.2**	**12.8**	**10.0**	**2.8**	**-8.9**	**30.5**	**39.4**
Côte d'Ivoire	**81.0**	**66.8**	**14.2**	**9.4**	**7.1**	**2.3**	**9.6**	**45.7**	**36.1**
Djibouti	96.7	66.8	29.9	20.7	14.0	6.7	-17.4	37.3	54.7
Egypt*	**83.6**	**70.8**	**12.8**	**16.8**	**13.0**	**3.8**	**-0.4**	**28.9**	**29.2**
Equatorial Guinea	40.1	35.0	5.1	27.4	12.1	15.4	32.5	105.6	73.1
Eritrea	154.5	99.7	54.8	22.7	5.3	17.4	-77.1	12.8	89.9
Ethiopia*	**95.1**	**80.7**	**14.3**	**21.3**	**13.6**	**7.7**	**-16.3**	**13.9**	**30.2**
Gabon	**50.6**	**41.4**	**9.2**	**24.3**	**20.1**	**4.2**	**25.1**	**60.4**	**35.2**
Gambia	89.1	74.7	14.4	28.5	14.1	14.4	-17.6	50.4	68.0
Ghana	**92.8**	**76.8**	**16.0**	**27.9**	**16.0**	**11.9**	**-20.7**	**37.0**	**57.7**
Guinea	91.1	84.7	6.4	11.3	7.3	4.0	-2.4	20.5	22.9
Guinea Bissau	104.8	101.6	3.2	13.0	2.1	10.9	-17.8	38.1	55.9
Kenya	**90.9**	**74.0**	**17.0**	**18.2**	**14.2**	**4.0**	**-9.1**	**28.0**	**37.1**
Lesotho	111.3	76.4	34.9	32.4	23.8	8.6	-43.7	55.6	99.3
Liberia	...	...	...	...	...	...	...	...	...
Libya	46.0	28.6	17.3	17.8	2.4	15.4	36.2	73.1	36.9
Madagascar	**88.9**	**79.7**	**9.1**	**27.5**	**15.0**	**12.5**	**-16.3**	**31.7**	**48.0**
Malawi	**105.4**	**88.3**	**17.1**	**11.4**	**3.8**	**7.5**	**-16.8**	**28.8**	**45.5**
Mali	**87.6**	**68.8**	**18.9**	**18.5**	**10.7**	**7.8**	**-6.1**	**25.6**	**31.7**

Table 3 - **Demand Composition. 2004** (percentage of GDP) *(cont.)*

	Final Consumption			Gross Capital Formation			External Sector		
	Total	Private	Public	Total	Private	Public	Balance	Exports	Imports
Mauritania	109.3	78.9	30.4	30.9	6.2	24.7	-40.2	29.4	69.6
Mauritius	**77.9**	**63.5**	**14.3**	**24.4**	**17.8**	**6.7**	**-2.3**	**54.5**	**56.9**
Morocco	**81.2**	**61.0**	**20.2**	**25.0**	**22.4**	**2.7**	**-6.2**	**33.1**	**39.3**
Mozambique	**88.2**	**75.3**	**12.9**	**20.1**	**10.9**	**9.1**	**-8.3**	**30.0**	**38.3**
Namibia	86.1	56.3	29.8	22.7	13.7	9.0	-8.8	37.3	46.2
Niger	**96.5**	**78.2**	**18.4**	**14.7**	**9.1**	**5.6**	**-11.2**	**16.8**	**28.0**
Nigeria	**60.4**	**38.3**	**22.1**	**22.4**	**13.2**	**9.1**	**17.2**	**54.6**	**37.4**
Rwanda	**97.6**	**84.7**	**12.9**	**20.5**	**12.0**	**8.5**	**-18.1**	**10.3**	**28.4**
São Tomé and Principe	122.0	69.9	52.1	34.5	15.1	19.4	-56.5	38.9	95.4
Senegal	**90.3**	**80.0**	**10.4**	**23.1**	**13.0**	**10.1**	**-13.4**	**27.8**	**41.2**
Seychelles	88.7	62.4	26.3	11.3	7.0	4.3	0.0	89.4	89.4
Sierra Leone	96.7	83.4	13.2	19.6	10.8	8.8	-16.3	23.0	39.3
Somalia	...	...	...	...	...	...	...	...	...
South Africa* **	**82.8**	**63.0**	**19.9**	**17.9**	**13.2**	**4.7**	**-0.7**	**26.6**	**27.3**
Sudan	81.4	69.0	12.3	22.5	17.5	5.0	-3.9	17.8	21.7
Swaziland	89.2	64.2	25.1	18.2	11.0	7.2	-7.4	83.7	91.1
Tanzania	**88.6**	**81.7**	**6.9**	**21.0**	**13.3**	**7.7**	**-9.7**	**19.2**	**28.9**
Togo	90.1	81.2	8.9	27.0	25.6	1.5	-17.1	47.8	64.9
Tunisia	**78.6**	**62.7**	**15.8**	**24.7**	**17.7**	**7.1**	**-3.3**	**44.6**	**47.9**
Uganda*	**91.4**	**76.9**	**14.5**	**22.5**	**17.6**	**4.9**	**-13.9**	**13.7**	**27.5**
Zambia	**81.6**	**67.1**	**14.5**	**25.1**	**16.2**	**8.9**	**-6.7**	**34.2**	**40.9**
Zimbabwe	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Africa	**76.7**	**59.6**	**17.1**	**20.8**	**14.2**	**6.6**	**2.5**	**35.5**	**33.0**

Note: * Fiscal year July (n-1)/June (n) ** Fiscal year April (n)/ March (n+1).
*** Residual Items Reported by the South African Reserve Bank has been reallocated in the domestic expenditure items.
Sources: Various domestic authorities and IMF *World Economic Outlook.*

Table 4 - **Public Finances, 2004** (percentage of GDP)

	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	**35.8**	**8.8**	**0.1**	**30.7**	**19.1**	**7.3**	**1.8**	**11.4**	**6.9**	**5.1**
Angola	**37.4**	**6.9**	**0.5**	**38.9**	**31.8**	**10.5**	**2.4**	**4.5**	0.9	-1.5
Benin	**18.9**	**14.5**	**2.5**	**20.8**	**13.9**	**5.5**	**0.3**	**6.9**	-1.6	-1.9
Botswana**	**42.9**	**37.0**	**0.4**	**44.7**	**35.3**	**10.1**	**0.2**	**10.4**	**-1.5**	**-1.8**
Burkina Faso	**16.8**	**11.7**	**4.2**	**21.2**	**10.9**	**4.4**	**0.7**	**10.4**	**-3.6**	**-4.3**
Burundi	35.5	35.5	...	39.8	...	...	3.4	...	-1.0	-4.3
Cameroon	**15.3**	**9.3**	**0.1**	**15.9**	**14.0**	**5.4**	**2.0**	**1.9**	**1.3**	**-0.6**
Cape Verde	29.1	29.1	...	30.6	...	...	2.5	...	1.0	-1.5
Central African Republic	11.4	11.4	...	13.7	...	...	1.2	...	-1.1	-2.3
Chad	**15.9**	**5.3**	**6.1**	**17.1**	**6.2**	**2.8**	**0.4**	**10.9**	**-0.7**	**-1.2**
Comoros	16.5	16.5	...	19.5	...	...	0.9	...	-2.1	-3.0
Congo	32.5	8.7	0.3	28.6	21.6	5.4	5.6	7.0	9.5	3.9
Congo Dem. Rep.	9.8	6.9	2.0	13.7	11.0	3.6	3.3	2.7	-0.6	-3.9
Côte d'Ivoire	**32.5**	**8.7**	**0.3**	**28.6**	**21.6**	**5.4**	**5.6**	**7.0**	**9.5**	**3.9**
Djibouti	35.2	35.2	...	34.2	...	...	0.5	...	1.5	1.0
Egypt *	**20.8**	**12.8**	**0.6**	**26.7**	**22.7**	**7.5**	**6.6**	**3.8**	**0.6**	**-6.0**
Equatorial Guinea	35.5	35.5	...	23.0	...	...	0.1	...	12.6	12.5
Eritrea	55.7	55.7	...	78.1	...	...	5.2	...	-17.1	-22.4
Ethiopia*	**22.0**	**12.3**	**6.5**	**25.8**	**15.0**	**5.0**	**1.8**	**10.0**	**-2.1**	**-3.8**
Gabon	**29.2**	**11.9**	**0.1**	**21.7**	**17.5**	**5.9**	**3.9**	**4.2**	**11.5**	**7.5**
Gambia	25.5	25.5	...	31.2	...	...	7.2	...	1.5	-5.7
Ghana	**30.1**	**22.3**	**6.4**	**33.3**	**20.9**	**8.7**	**4.3**	**12.4**	**1.2**	**-3.1**
Guinea	11.6	11.6	...	16.5	...	...	2.5	...	-2.4	-4.9
Guinea Bissau	32.1	32.1	...	40.4	...	...	3.7	...	-4.6	-8.4
Kenya*	**30.1**	**22.3**	**6.4**	**33.3**	**20.9**	**8.7**	**4.3**	**12.4**	**1.2**	**-3.1**
Lesotho	48.4	48.4	...	45.0	...	...	1.5	...	4.8	3.3
Liberia	...	...	...	...	...	...	...	...	...	...
Libya	61.1	...	...	56.2	...	...	...	...	...	5.0
Madagascar	20.3	10.9	8.2	25.1	12.6	4.9	2.9	12.5	-1.9	-4.8
Malawi	**34.6**	**21.5**	**12.2**	**42.8**	**36.6**	**6.3**	**5.6**	**5.6**	**-2.6**	**-8.2**
Mali	**22.3**	**15.7**	**4.1**	**25.0**	**15.7**	**4.9**	**0.7**	**9.7**	**-2.0**	**-2.7**

Table 4 - **Public Finances, 2004** (percentage of GDP) *(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	28.0	28.0	...	48.4	...	...	2.3	...	-18.2	-20.4
Mauritius*	**22.3**	**15.7**	**4.1**	**25.0**	**15.7**	**4.9**	**0.7**	**9.7**	**-2.0**	**-2.7**
Morocco	**25.1**	**22.7**	**1.6**	**30.8**	**24.2**	**12.8**	**3.9**	**6.7**	**-1.8**	**-5.7**
Mozambique	**19.6**	**11.4**	**7.3**	**24.0**	**14.1**	**6.7**	**1.0**	**9.1**	**-3.4**	**-4.4**
Namibia	32.5	32.5	...	35.9	...	...	2.7	...	-0.7	-3.4
Niger	17.8	11.4	6.0	21.4	11.5	4.0	0.5	9.8	-3.0	-3.5
Nigeria	**43.1**	**7.2**	**...**	**35.4**	**11.0**	**4.6**	**3.6**	**8.1**	**11.3**	**7.7**
Rwanda	**25.9**	**12.8**	**12.0**	**26.1**	**15.9**	**4.6**	**1.1**	**8.5**	**0.9**	**-0.2**
São Tomé and Principe	59.3	59.3	...	85.6	...	...	4.8	...	-21.5	-26.3
Senegal	**21.2**	**18.1**	**2.6**	**23.2**	**12.8**	**5.3**	**1.1**	**10.1**	**-0.8**	**-2.0**
Seychelles	49.1	49.1	...	50.6	...	...	7.8	...	6.3	-1.5
Sierra Leone	21.3	21.3	...	24.8	...	...	5.5	...	2.0	-3.5
Somalia	...	...	...	...	...	...	...	...	...	...
South Africa**	**24.8**	**24.3**	**...**	**26.3**	**26.3**	**9.2**	**3.5**	**1.1**	**2.0**	**-1.5**
Sudan	19.8	19.8	...	18.7	...	...	1.5	...	2.6	1.2
Swaziland	30.0	30.0	...	32.8	...	...	1.4	...	-1.4	-2.7
Tanzania*	**24.8**	**24.3**	**...**	**26.3**	**26.3**	**9.2**	**3.5**	**1.1**	**2.0**	**-1.5**
Togo	16.7	16.7	...	14.8	...	...	1.7	...	3.6	1.9
Tunisia	**24.8**	**14.7**	**0.2**	**27.1**	**19.7**	**12.1**	**2.8**	**7.2**	**0.5**	**-2.3**
Uganda*	**22.0**	**11.7**	**9.4**	**23.8**	**14.7**	**5.2**	**2.0**	**8.8**	**0.2**	**-1.8**
Zambia	**23.9**	**17.6**	**5.6**	**26.8**	**18.0**	**7.8**	**3.5**	**8.8**	**0.6**	**-2.8**
Zimbabwe	...	...	...	...	...	...	...	...	...	...
Africa	**28.3**	**...**	**...**	**28.8**	**...**	**...**	**3.3**	**...**	**2.8**	**-0.5**

Note: * Fiscal year July (n-1)/June (n) ** Fiscal year April (n)/ March (n+1).
*** Only major Items are reported.
° Excluding oil revenues (for oil producing countries).
Sources: Various domestic authorities and IMF *World Economic Outlook.*

Table 5 - Monetary Indicators

	Inflation (%)				Exchange Rate (LCU / $)			Broad Money (LCU billion) 2004			Reserves excluding gold ($ million) 2004	
	2004	2005 (e)	2006 (p)	2007 (p)	2003	2004	2005	Level	% of GDP	Growth 2003/2004	Stock at year-end	Eq. months of imports
Algeria	**3.6**	**5.1**	**4.3**	**4.2**	**77.4**	**72.1**	**73.3**	**3 661.1**	**59.9**	**11.3**	**43 550**	**29.7**
Angola	**43.6**	**22.1**	**20.1**	**16.0**	**74.6**	**83.5**	**88.3**	**243.7**	**15.0**	**37.0**	**1 374**	**2.8**
Benin	**0.9**	**4.7**	**3.4**	**1.8**	**581.2**	**528.3**	**522.5**	**502.6**	**23.5**	**-9.3**	**640**	**9.2**
Botswana**	**6.3**	**7.0**	**5.4**	**4.8**	**4.9**	**4.7**	**5.0**	**12.7**	**30.2**	**16.0**	**5 661**	**31.3**
Burkina Faso	**-0.4**	**5.0**	**4.2**	**1.5**	**581.2**	**528.3**	**522.5**	**583.7**	**21.7**	**-8.3**	**669**	**8.5**
Burundi	8.0	16.3	7.8	5.1	1 082.6	1 100.9	1 107.8	203.7	27.9	17.8	66	5.6
Cameroon	**0.3**	**1.8**	**1.9**	**2.0**	**581.2**	**528.3**	**522.5**	**1 446.7**	**17.3**	**6.4**	**842**	**4.2**
Cape Verde	-1.9	0.7	2.3	2.2	97.8	88.7	87.5	61.6	74.6	11.1	140	4.3
Central African Republic	-2.2	2.4	2.3	2.1	581.2	528.3	522.5	110.2	16.0	14.2	153	13.4
Chad	**-5.3**	**9.5**	**3.3**	**3.0**	**581.2**	**528.3**	**522.5**	**188.7**	**8.5**	**3.5**	**227**	**3.7**
Comoros	4.5	3.0	3.0	3.0	435.9	396.2	392.1	32.2	22.1	-5.0	104	19.2
Congo	**3.6**	**2.9**	**3.0**	**2.4**	**581.2**	**528.3**	**522.5**	**334.2**	**14.6**	**17.4**	**124**	**1.4**
Congo Dem. Rep.	**4.0**	**22.7**	**6.7**	**5.2**	**405.3**	**401.0**	**482.5**	**214.9**	**8.3**	**72.6**	**...**	**...**
Cote d'Ivoire	**1.6**	**4.7**	**3.0**	**2.4**	**581.2**	**528.3**	**522.5**	**1 932.6**	**23.6**	**9.6**	**1 694**	**5.1**
Djibouti	3.1	3.0	2.2	2.0	177.7	177.7	178.2	87.8	74.8	13.9	94	4.1
Egypt*	**8.1**	**8.8**	**7.5**	**5.3**	**5.9**	**6.2**	**5.8**	**461.9**	**97.4**	**14.4**	**14 990**	**9.8**
Equatorial Guinea	4.2	6.0	5.5	5.0	581.2	528.3	522.5	207.2	8.8	33.5	945	6.0
Eritrea	25.1	14.0	12.1	11.7	13.9	13.8	13.8	19.7	153.3	11.6	35	0.9
Ethiopia*	**8.6**	**6.6**	**5.3**	**4.8**	**8.6**	**8.6**	**8.7**	**39.6**	**57.4**	**19.3**	**1 497**	**6.9**
Gabon	**0.4**	**1.9**	**1.5**	**1.1**	**581.2**	**528.3**	**522.5**	**658.9**	**17.3**	**11.4**	**449**	**3.9**
Gambia	14.2	5.0	5.2	4.2	27.3	30.0	28.9	5.4	45.1	18.3	84	4.3
Ghana	**12.6**	**12.9**	**10.7**	**10.4**	**8 677.4**	**9 004.6**	**8 162.7**	**25 644.7**	**32.1**	**27.4**	**1 749**	**4.9**
Guinea	17.5	26.3	11.8	4.9	1 984.9	2 225.0	3 369.1	1 500.2	16.9	36.5	...	...
Guinea Bissau	3.0	2.0	2.0	2.0	581.2	528.3	522.5	43.5	30.5	42.8	73	8.6
Kenya	**11.6**	**8.2**	**7.4**	**6.7**	**75.9**	**79.2**	**76.1**	**497.4**	**39.0**	**13.7**	**1 520**	**4.2**
Lesotho	5.0	4.3	5.0	5.0	7.6	6.5	6.3	2.4	25.8	3.3	503	4.6
Liberia	...	...	...	...	...	...	...	...	...	...	...	...
Libya	-1.0	1.8	2.5	3.0	1.3	1.3	1.3	12.8	34.9	17.9	25 883	35.4
Madagascar	**13.4**	**18.3**	**9.0**	**7.8**	**1 238.3**	**1 868.9**	**1 977.4**	**1 987.2**	**24.4**	**25.2**	**504**	**4.2**
Malawi	**11.6**	**16.4**	**10.1**	**9.5**	**97.4**	**108.9**	**115.0**	**46.4**	**22.7**	**29.7**	**134**	**2.0**

Table 5 - **Monetary Indicators** *(cont.)*

	Inflation (%)				Exchange Rate (LCU / $)			Broad Money (LCU billion) 2004			Reserves excluding gold ($ million) 2004	
	2004	2005 (e)	2006 (p)	2007 (p)	2003	2004	2005	Level	% of GDP	Growth 2003/2004	Stock at year-end	Eq. months of imports
Mali	**-2.8**	**5.0**	**-0.8**	**1.4**	**581.2**	**528.3**	**522.5**	**766.8**	**29.4**	**-2.6**	**861**	**9.4**
Mauritania	10.4	13.5	7.2	4.3	263.0	265.5	273.7	...	...	...	390	6.0
Mauritius	**4.7**	**5.1**	**6.1**	**4.8**	**27.9**	**27.5**	**29.3**	**148.6**	**89.7**	**13.2**	**1 630**	**7.6**
Morocco	**1.5**	**2.2**	**2.1**	**2.1**	**9.6**	**8.9**	**8.8**	**416.4**	**93.9**	**7.8**	**16 575**	**12.3**
Mozambique	**12.9**	**7.4**	**7.2**	**5.6**	**23 782.3**	**22 581.3**	**22 428.3**	**34 789.9**	**25.3**	**5.8**	**1 131**	**6.7**
Namibia	4.1	5.8	5.0	5.0	7.6	6.5	6.3	...	...	...	345	2.0
Niger	**0.2**	**7.9**	**2.7**	**2.2**	**581.2**	**528.3**	**522.5**	**232.2**	**14.3**	**19.7**	**258**	**5.4**
Nigeria	**15.0**	**16.4**	**6.9**	**6.7**	**129.2**	**132.9**	**131.9**	**2 263.6**	**23.6**	**14.0**	**16 956**	**10.6**
Rwanda	**12.0**	**7.6**	**4.5**	**4.2**	**537.7**	**574.6**	**557.5**	**0.0**	**0.0**	**-100.0**	**315**	**13.8**
São Tomé and Principe	12.8	15.1	13.4	10.6	9 347.6	9 825.7	9 441.5	309.7	49.2	2.9	20	6.5
Senegal	**0.5**	**2.3**	**2.5**	**2.0**	**581.2**	**528.3**	**522.5**	**1 432.4**	**35.5**	**12.2**	**1 386**	**6.7**
Seychelles	3.9	2.3	4.5	1.1	5.4	5.5	5.5	4.3	110.8	0.9	35	1.0
Sierra Leone	14.2	8.5	7.4	5.7	2 347.9	2 701.3	2 826.5	551.6	19.1	20.1	125	5.9
Somalia	...	...	...	...	...	...	...	...	...	...	...	...
South Africa	**4.3**	**3.9**	**4.5**	**4.6**	**7.6**	**6.5**	**6.3**	**913.6**	**66.5**	**13.7**	**14 720**	**3.7**
Sudan	8.4	7.5	7.0	6.0	261.0	257.9	245.9	960.4	17.3	30.8	1 626	5.4
Swaziland	3.5	5.5	5.8	5.5	7.6	6.5	6.3	3.3	21.0	10.4	324	2.1
Tanzania	**5.9**	**4.1**	**4.0**	**4.1**	**1 038.4**	**1 089.3**	**1 120.1**	**2 848.0**	**23.1**	**19.2**	**2 296**	**12.1**
Togo	1.2	1.7	2.0	2.3	581.2	528.3	522.5	307.1	28.6	18.1	360	4.1
Tunisia	**3.6**	**2.1**	**2.8**	**2.9**	**1.3**	**1.2**	**1.3**	**20.2**	**57.5**	**11.3**	**3 939**	**3.9**
Uganda*	**5.0**	**8.2**	**4.5**	**4.4**	**1 963.7**	**1 810.3**	**1 761.4**	**2 697.7**	**20.5**	**11.1**	**1 308**	**11.9**
Zambia	**18.0**	**18.2**	**13.9**	**9.4**	**4 733.3**	**4 778.9**	**4 602.3**	**5 639.4**	**21.8**	**32.1**	**337**	**2.3**
Zimbabwe	350.0	190.4	253.1	210.2	697.4	5 068.7	11 081.9	9 233.9	38.8	229.3	...	...
Africa	**7.5**	**7.9**	**7.3**	**6.5**	**...**	**...**	**...**	**...**	**...**	**...**	**168 639**	**0.8**

Note: * Fiscal year July (n-1)/June (n) ** Fiscal year April (n)/ March (n+1).
Sources: Inflation: Various domestic authorities; IMF *World Economic Outlook* and authors' estimates and forecasts.
Other data: IMF, *International Financial Statistics* (CD-ROM November 2005 and January 2006).

Table 6 - **Current Account, 2004** (percentage of GDP)

	Trade balance	Exports of goods	Imports of goods	Services balance	Net income	Current transfers	Current account balance
Algeria	**18.5**	**39.3**	**-20.8**	**-2.3**	**-3.8**	**2.5**	**15.0**
Angola	**39.1**	**69.0**	**-29.9**	**-22.9**	**-12.7**	**0.0**	**3.5**
Benin	**-6.4**	**14.2**	**-20.6**	**-2.0**	**-0.5**	**2.4**	**-6.5**
Botswana**	**5.1**	**31.4**	**-26.2**	**-0.2**	**-2.9**	**5.7**	**7.7**
Burkina Faso	**-8.8**	**9.1**	**-17.9**	**-4.0**	**-0.6**	**3.8**	**-9.6**
Burundi	-14.3	7.2	-21.5	-7.7	-4.1	19.0	-7.2
Cameroon	**1.8**	**17.0**	**-15.2**	**-1.1**	**-2.5**	**0.8**	**-0.9**
Cape Verde	-35.6	6.3	-41.8	4.6	-1.6	26.4	-6.2
Central African Republic	-1.0	9.6	-10.5	-5.5	-0.5	2.6	-4.3
Chad	**34.5**	**52.1**	**-17.6**	**-28.7**	**-16.6**	**3.8**	**-7.1**
Comoros	-13.7	4.0	-17.7	0.9	-0.6	11.0	-2.4
Congo	**53.4**	**78.2**	**-24.8**	**-26.2**	**-25.1**	**0.2**	**2.3**
Congo Dem. Rep.	**-3.8**	**28.1**	**-31.9**	**-5.0**	**-4.1**	**7.5**	**-5.4**
Cote d'Ivoire	**17.5**	**43.3**	**-25.8**	**-8.2**	**-4.5**	**-3.0**	**1.8**
Djibouti	-37	5	-42	19	10	7	-1
Egypt*	**-10.0**	**13.4**	**-23.5**	**9.7**	**-0.3**	**5.0**	**4.4**
Equatorial Guinea	62.0	104.4	-42.4	-29.4	-46.3	-1.5	-15.2
Eritrea	-70.3	1.9	-72.3	-6.8	-2.2	67.0	-12.3
Ethiopia*	**-20.4**	**6.2**	**-26.6**	**3.2**	**-0.7**	**12.7**	**-5.1**
Gabon	**39.9**	**58.8**	**-18.9**	**-23.5**	**-3.2**	**-2.7**	**10.5**
Gambia	-27.0	31.7	-58.7	9.4	-5.0	10.9	-11.8
Ghana	**-17.1**	**31.4**	**-48.5**	**-4.4**	**-1.9**	**20.6**	**-2.7**
Guinea	4.2	18.7	-14.5	-6.5	-1.3	0.0	-3.7
Guinea Bissau	-5.1	32.6	-37.7	-12.7	-2.7	22.8	2.2
Kenya	**-9.9**	**16.9**	**-26.8**	**4.2**	**-0.7**	**4.0**	**-2.3**
Lesotho	-40.1	51.1	-91.2	-3.7	22.4	18.9	-2.5
Liberia	...	...	...	...	...	...	...
Libya	40.5	71.4	-30.9	-4.2	-4.5	-8.1	23.6
Madagascar	**-10.0**	**22.7**	**-32.7**	**-6.3**	**-1.5**	**7.5**	**-10.3**
Malawi	**-16.6**	**26.6**	**-43.2**	**-9.1**	**-2.4**	**0.9**	**-27.1**
Mali	**-2.5**	**20.6**	**-23.0**	**-6.1**	**-4.1**	**4.1**	**-8.6**

Table 6 - **Current Account, 2004** (percentage of GDP) *(cont.)*

	Trade balance	Exports of goods	Imports of goods	Services balance	Net income	Current transfers	Current account balance
Mauritania	-24.7	26.6	-51.3	-12.3	13.1	6.7	-17.2
Mauritius	**-9.1**	**31.6**	**-40.7**	**6.8**	**-0.2**	**0.7**	**-1.8**
Morocco	**-13.0**	**19.5**	**-32.4**	**6.8**	**-1.3**	**9.7**	**2.2**
Mozambique	**-8.7**	**24.7**	**-33.4**	**0.5**	**-5.6**	**8.9**	**-5.0**
Namibia	-11.3	29.2	-40.6	2.5	1.5	12.9	5.6
Niger	**-6.1**	**14.4**	**-20.4**	**-5.1**	**-0.5**	**3.3**	**-8.4**
Nigeria	**25.2**	**51.8**	**-26.6**	**-8.2**	**-16.3**	**3.8**	**4.6**
Rwanda	**-9.6**	**5.3**	**-14.9**	**-8.5**	**-1.9**	**17.1**	**-2.9**
São Tomé and Principe	-45.8	10.7	-56.5	-10.6	-4.8	12.0	-49.2
Senegal	**-13.1**	**19.0**	**-32.1**	**-0.3**	**-2.1**	**8.9**	**-6.6**
Seychelles	-16.6	42.7	-59.3	16.6	-4.7	1.8	-3.0
Sierra Leone	-8.8	16.0	-24.9	-7.5	-2.6	14.1	-4.8
Somalia	...	...	...	...	...	...	...
South Africa	**-0.1**	**22.4**	**-22.5**	**-0.5**	**-2.0**	**-0.7**	**-3.3**
Sudan	0.9	17.5	-16.6	-4.7	-7.6	5.2	-6.2
Swaziland	-0.5	77.9	-78.3	-6.9	0.2	6.5	-0.6
Tanzania	**-8.4**	**11.8**	**-20.2**	**-0.8**	**-0.4**	**5.7**	**-3.8**
Togo	-13.4	38.2	-51.6	-3.7	-1.8	6.6	-12.3
Tunisia	**-8.6**	**34.3**	**-43.0**	**6.0**	**0.3**	**-0.2**	**-2.5**
Uganda*	**-9.6**	**9.3**	**-18.9**	**-3.2**	**-2.4**	**13.8**	**-1.5**
Zambia	**1.0**	**32.9**	**-31.9**	**-4.0**	**-7.8**	**-0.5**	**-11.3**
Zimbabwe	-5.4	29.2	-34.5	-1.9	-3.6	4.0	-6.9
Africa	**4.3**	**30.4**	**-26.0**	**-1.5**	**-4.1**	**2.8**	**1.5**

Note: * Fiscal year July (n-1)/June (n) ** Fiscal year April (n)/ March (n+1).
Sources: Domestic authorities and IMF *World Economic Outlook.*

Table 7 - **Exports, 2003**

	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 (50.3%)**	**Natural gas, liquefied (15.1%)**	**Motor gasolene,light oil (14.8%)**	**3**
Angola	**Crude petroleum (94.6%)**			**1**
Benin	**Cotton,not carded,combed (68.7%)**	**Motor gasolene,light oil (5.8%)**		**3**
Botswana	**Diamonds.excl.industrial (87.6%)**	**Nickel mattes,sintrs.etc (8.4%)**		**1**
Burkina Faso	**Cotton,not carded,combed (66.9%)**	**Sesame (sesamum) seeds (6.4%)**	**Cigarettes contg.tobacco (4.1%)**	**3**
Burundi	Coffee, not roasted (78.9%)	Diamonds.excl.industrial (4.7%)	Ore etc.molybdn.niob.etc (4.4%)	1
Cameroon	**Crude petroleum (43.1%)**	**Wood,non-conifer, sawn (13.4%)**	**Bananas, fresh or dried (9.8%)**	**4**
Cape Verde	Special trans not classd (19.1%)	Gas turbines, nes (18.2%)	Shirts (9.3%)	7
Central African Republic	Diamonds.excl.industrial (42.7%)	Wood,non-conif,rough,unt (29.1%)	Cotton,not carded,combed (14%)	3
Chad	**Cotton,not carded,combed (57.5%)**	**Crude petroleum (21.1%)**	**Natural gums,resins,etc. (11.9%)**	**2**
Comoros	Spices,ex.pepper,pimento (88.1%)	Essential oils (8.8%)		1
Congo	**Crude petroleum (78.4%)**	**Motor gasolene,light oil (5.8%)**	**Wood,non-conif,rough,unt (5.7%)**	**1**
Congo Dem. Rep.	**Diamonds.excl.industrial (54.9%)**	**Industrial diamonds (14.4%)**	**Crude petroleum (8.8%)**	**3**
Côte d'Ivoire	**Cocoa beans (48.2%)**	**Cocoa paste (7.7%)**	**Bananas, fresh or dried (4.8%)**	**7**
Djibouti	Sodium chloride, etc. (35.2%)	Oth.wheat,meslin,unmlled (11.5%)	Petrolm.bitumen,coke,etc (10.2%)	5
Egypt	**Motor gasolene,light oil (15.3%)**	**Crude petroleum (13.4%)**		**42**
Equatorial Guinea	Crude petroleum (89.6%)	Acyclic monohydric alchl (4.6%)	Wood,non-conif,rough,unt (4.1%)	1
Eritrea	Elctrn comp pts,crystals (40.7%)	Electrical capacitors (11.8%)	Drawing,measurg.instrmnt (4.6%)	8
Ethiopia	**Coffee, not roasted (47.2%)**	**Sesame (sesamum) seeds (12.6%)**	**Sheep skin without wool (6.5%)**	**6**
Gabon	**Crude petroleum (77.4%)**	**Wood,non-conif,rough,unt (12.3%)**	**Manganese ores,concentrs (4%)**	**1**
Gambia	Aircrft etc.ULW >15000kg (40.3%)	Oth.frsh,chll.vegetables (10.4%)	Groundnut oil, fractions (7.3%)	7
Ghana	**Cocoa beans (48.3%)**	**Wood,non-conifer, sawn (6.3%)**	**Alum.,alum.alloy,unwrght (5.1%)**	**7**
Guinea	Aluminium ore,concentrat (43.4%)	Alumina(aluminium oxide) (17.2%)	Crude petroleum (10.3%)	4
Guinea Bissau	Molluscs (32.8%)	Propane, liquefied (21.8%)	Fish,frozen ex.fillets (20.6%)	3
Kenya	**Tea (16.9%)**	**Cut flowers and foliage (11.2%)**	**Motor gasolene,light oil (9.3%)**	**25**
Lesotho	Jersys,pullovrs,etc.knit (33.3%)	Trousers,breeches,etc. (18.4%)	Trousers, breeches etc. (15.9%)	4
Liberia	Ships,boats,othr.vessels (69%)	Wood,non-conif,rough,unt (9.5%)	Natural rubber latex (5.9%)	2
Libya	Crude petroleum (82.8%)	Motor gasolene,light oil (10.4%)		1
Madagascar	**Spices,ex.pepper,pimento (27.9%)**	**Crustaceans, frozen (14.6%)**	**Jersys,pullovrs,etc.knit (11.6%)**	**9**
Malawi	**Tobacco,stemmed,stripped (55.7%)**	**Tea (10.5%)**	**Tobacco,not stripped,etc (8.8%)**	**4**
Mali	**Cotton,not carded,combed (86.8%)**			**1**

Table 7 - **Exports, 2003** *(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 (39.8%)	Molluscs (27.8%)	Fish,frozen ex.fillets (15.5%)	3
Mauritius	**T-shirts,othr.vests knit (16.6%)**	**Sugars,beet or cane, raw (16.4%)**	**Jersys,pullovrs,etc.knit (11.5%)**	**10**
Morocco	**Trousers, breeches etc. (6.5%)**	**Diodes,transistors etc. (5.5%)**	**Insultd wire,etc.condctr (5.4%)**	**33**
Mozambique	**Alum.,alum.alloy,unwrght (70.9%)**	**Crustaceans, frozen (6.6%)**		**2**
Namibia	Fish fillets, frozen (22.5%)	Diamonds.excl.industrial (15.4%)	Radio-active chemicals (10.8%)	8
Niger	**Radio-active chemicals (71.5%)**	**Special trans not classd (12.3%)**		**2**
Nigeria	**Crude petroleum (86.4%)**	**Natural gas, liquefied (4.6%)**		**1**
Rwanda	**Crude petroleum (61.1%)**	**Ore etc.molybdn.niob.etc (14.8%)**	**Coffee, not roasted (14.6%)**	**2**
São Tomé and Principe	Cocoa beans (82.2%)			1
Senegal	**Molluscs (20.2%)**	**Groundnut oil, fractions (11.1%)**	**Fish,fresh,chilled,whole (9.4%)**	**8**
Seychelles	Fish,prepard,presrvd,nes (54.5%)	Fish,frozen ex.fillets (27.3%)	Motor gasolene,light oil (4.3%)	2
Sierra Leone	Diamonds.excl.industrial (49%)	Convertible seats,parts (10.9%)	Parts,data proc. etc.mch (4.9%)	6
Somalia	Sheep and goats, live (27.6%)	Fuel wood, wood charcoal (20.7%)	Molluscs (17.1%)	4
South Africa	**Platinum (11.8%)**	**Diamonds.excl.industrial (9.6%)**	**Oth.coal,not agglomeratd (7.5%)**	**44**
Sudan	Crude petroleum (79.6%)			1
Swaziland	Chem.products etc.nes (48.3%)	Yarn,staple fibres, etc. (29.1%)	Othr.organo-inorgan.comp (5.4%)	2
Tanzania	**Fish fillets,frsh,chilld (12.6%)**	**Coffee, not roasted (8.9%)**	**Tobacco,stemmed,stripped (6.9%)**	**21**
Togo	Cotton,not carded,combed (36.7%)	Natural calc.phosphates (20.9%)	Cocoa beans (5.8%)	7
Tunisia	**Trousers, breeches etc. (17.1%)**	**Crude petroleum (6.8%)**	**Insultd wire,etc.condctr (5.9%)**	**35**
Uganda	**Coffee, not roasted (31.8%)**	**Fish fillets,frsh,chilld (11.0%)**	**Tobacco,stemmed,stripped (9.7%)**	**8**
Zambia	**Copper;anodes;alloys (40.7%)**	**Copper plate,etc.15mm+th (10.8%)**	**Cobalt,cadmium,etc.unwrt (10.4%)**	**7**
Zimbabwe	Tobacco,stemmed,stripped (30.8%)	Nickel,nckl.alloy,unwrgt (8.9%)	Nickel ores,concentrates (8.6%)	13
Africa**	**Crude petroleum (38.4%) [16.3%]**	**Motor gasolene,light oil (4.7%) [5.5%]**	**Diamonds.excl.industrial (3.7%) [12.5%]**	**36**

Note: * Products are reported when they account for more than 4 per cent of total exports.
** Figures in [ ] represent the share of Africa in World exports for each product.
Source: PC-TAS 1999-2003 International Trade Center UNCTAD/WTO and the UN Statistics Division.

Table 8 - Diversification and Competitiveness

	Diversification index					Annual export growth (%)	Competitiveness Indicator 1999-2003 (%)	
	1999	2000	2001	2002	2003	1999-2003	Sectoral effect	Global competitiveness effect
Algeria	**6.5**	**5.8**	**5.7**	**3.0**	**3.3**	**24.4**	**14.7**	**3.1**
Angola	**1.4**	**1.3**	**1.3**	**1.2**	**1.1**	**23.7**	**9.1**	**8.1**
Benin	**2.8**	**3.4**	**2.1**	**4.0**	**2.1**	**-6.3**	**-5.9**	**-6.9**
Botswana	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Burkina Faso	**2.2**	**4.5**	**4.6**	**7.9**	**2.2**	**0.7**	**-4.5**	**-1.4**
Burundi	1.9	1.6	2.0	1.7	1.6	-10.6	-12.0	-5.2
Cameroon	**6.2**	**4.0**	**4.4**	**4.3**	**4.4**	**5.9**	**1.2**	**-1.8**
Cape Verde	6.2	8.5	10.3	5.4	9.2	-14.5	-4.4	-16.6
Central African Republic	1.9	1.9	2.5	2.0	3.4	-10.5	-6.2	-10.9
Chad	**1.6**	**1.7**	**1.5**	**1.7**	**2.6**	**-8.4**	**-7.1**	**-7.9**
Comoros	4.6	2.3	1.3	2.4	1.3	16.8	-0.9	11.1
Congo	**1.7**	**1.5**	**1.5**	**1.4**	**1.6**	**9.8**	**6.0**	**-2.8**
Congo Dem. Rep.	**2.0**	**2.4**	**2.4**	**1.8**	**3.0**	**-3.5**	**-6.5**	**-3.6**
Côte d'Ivoire	**5.7**	**7.3**	**6.6**	**5.4**	**4.0**	**2.9**	**1.0**	**-4.7**
Djibouti	14.2	26.2	26.8	17.7	5.9	31.9	-3.3	28.7
Egypt	**9.1**	**15.2**	**27.0**	**27.1**	**20.4**	**9.2**	**9.2**	**-6.6**
Equatorial Guinea	1.9	1.5	1.3	1.2	1.2	74.9	0.7	67.7
Eritrea	4.8	14.6	16.6	13.7	5.2	3.9	-6.3	3.6
Ethiopia	**2.5**	**2.5**	**5.4**	**5.1**	**4.0**	**0.1**	**-11.6**	**5.2**
Gabon	**1.8**	**1.6**	**1.7**	**1.7**	**1.6**	**5.8**	**5.2**	**-6.0**
Gambia	2.4	4.4	6.2	7.4	5.2	-18.7	-4.7	-20.6
Ghana	**7.7**	**8.2**	**8.1**	**6.1**	**4.0**	**0.1**	**0.0**	**-6.5**
Guinea	3.5	3.5	3.4	3.9	4.2	-1.3	-5.2	-2.7
Guinea Bissau	2.7	2.4	1.5	1.7	4.8	-21.6	-2.6	-25.5
Kenya	**11.2**	**11.8**	**11.8**	**12.2**	**16.0**	**6.0**	**-4.4**	**3.8**
Lesotho	...	...	...	...	...	...	...	...
Liberia	3.2	2.9	2.2	2.1	2.0	12.0	-1.6	7.0
Libya	1.6	1.5	1.5	1.2	1.4	15.7	10.5	-1.4
Madagascar	**16.9**	**11.3**	**9.1**	**8.3**	**8.1**	**11.2**	**-4.1**	**8.8**
Malawi	**2.7**	**2.4**	**2.7**	**2.9**	**3.0**	**-1.8**	**-7.0**	**-1.4**
Mali	**1.4**	**1.9**	**3.1**	**2.6**	**1.3**	**-9.1**	**-3.1**	**-12.6**

Table 8 - Diversification and Competitiveness (cont.)

	Diversification index					Annual export growth (%)	Competitiveness Indicator 1999-2003 (%)	
	1999	2000	2001	2002	2003	1999-2003	Sectoral effect	Global competitiveness effect
Mauritania	3.5	3.6	3.6	3.8	3.8	-3.6	0.1	-10.2
Mauritius	**11.2**	**13.5**	**12.3**	**12.1**	**11.7**	**0.9**	**-3.3**	**-2.3**
Morocco	**32.8**	**36.0**	**35.8**	**37.1**	**38.3**	**5.1**	**-2.1**	**0.6**
Mozambique	**8.5**	**9.2**	**2.9**	**2.7**	**2.0**	**55.5**	**-3.5**	**52.4**
Namibia	...	...	...	...	...	...	...	...
Niger	**2.4**	**2.1**	**5.1**	**3.7**	**1.9**	**-16.3**	**7.7**	**-30.5**
Nigeria	**1.3**	**1.2**	**1.3**	**1.3**	**1.3**	**14.8**	**10.5**	**-2.3**
Rwanda	**2.6**	**3.1**	**2.6**	**2.8**	**2.4**	**27.1**	**-11.8**	**32.4**
SACU *	**28.1**	**29.8**	**29.3**	**26.6**	**22.2**	**5.5**	**-2.0**	**0.9**
São Tomé and Principe	5.3	3.8	7.1	2.3	1.5	-10.0	-2.0	-14.6
Senegal	**15.0**	**18.6**	**12.6**	**12.7**	**12.2**	**-5.9**	**-4.8**	**-7.7**
Seychelles	2.0	1.9	2.6	2.8	2.7	39.9	-4.3	37.6
Sierra Leone	4.4	4.1	7.0	7.7	3.8	30.1	-2.5	26.0
Somalia	3.8	3.1	10.3	5.7	6.1	-14.9	-5.7	-15.8
South Africa	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Sudan	6.4	1.9	1.6	1.7	1.6	71.8	-0.4	65.6
Swaziland	...	...	...	...	...	...	...	...
Tanzania	**13.8**	**17.6**	**19.5**	**20.8**	**21.7**	**2.5**	**-5.7**	**1.6**
Togo	6.1	7.2	7.5	8.9	5.3	-6.3	-7.1	-5.7
Tunisia	**26.8**	**28.8**	**28.5**	**30.0**	**31.2**	**8.1**	**-1.4**	**2.9**
Uganda	**2.0**	**3.1**	**6.0**	**6.5**	**7.3**	**-1.2**	**-12.0**	**4.2**
Zambia	**5.6**	**4.5**	**4.1**	**5.4**	**5.0**	**0.8**	**-4.5**	**-1.2**
Zimbabwe	10.0	11.9	9.7	7.5	8.1	-4.8	-4.1	-7.3
Africa	**10.8**	**6.9**	**8.5**	**7.8**	**6.4**	**10.3**	**3.6**	**0.2**

Note: * Includes Botswana, Lesotho, Namibia, South Africa and Swaziland.
Sources: PC-TAS 1999-2003 International Trade Center UNCTAD/WTO and the UN Statistics Division.

Table 9 - **International Prices of Exports, 1999-2005**

	Unit	1999	2000	2001	2002	2003	2004	2005
Aluminum	($/mt)	1 367.22	1 549.14	1 444.00	1 349.91	1 431.29	1 715.54	1 898.31
Banana (US)	($/mt)	374.89	424.00	583.30	528.58	374.79	524.58	602.84
Coal (US)	($/mt)	33.32	33.06	44.86	40.02	...	...	...
Cocoa	(cents/kg)	113.53	90.58	106.90	177.79	175.09	154.98	153.81
Coffee (Arabica)	(cents/kg)	230.09	191.97	137.30	135.66	141.54	177.40	253.22
Coffee (Robusta)	(cents/kg)	149.55	91.30	60.70	66.18	81.45	79.30	111.45
Copper	($/mt)	1 579.94	1 813.47	1 578.29	1 559.48	1 779.14	2 865.88	3 678.88
Cotton	(c/kg)	117.63	130.22	105.80	101.92	139.91	136.57	121.70
Fish Meal	($/mt)	394.27	429.48	486.70	605.92	610.71	648.58	711.19
Gold	($/toz)	280.02	279.03	270.99	309.97	363.51	409.21	444.84
Groundnut oil	($/mt)	791.21	713.67	680.30	687.08	1 243.17	1 161.00	1 060.44
Iron ore	(c/dmtu)	27.71	28.79	30.03	29.31	31.95	37.90	65.00
Lead	(c/kg)	50.49	45.39	47.60	45.27	51.50	88.65	97.64

Table 9 - **International Prices of Exports, 1999-2005** *(cont.)*

	Unit	1999	2000	2001	2002	2003	2004	2005
Logs Cameroon	($/CM)	269.27	275.43	266.10	...	...	...	...
Maize	($/mt)	90.22	88.53	89.60	99.27	105.37	111.80	98.67
Oil (crude)	($/bbl)	18.07	28.23	24.35	24.93	28.90	37.73	53.39
Palm oil	($/mt)	436.00	310.25	285.70	390.25	443.25	471.33	422.08
Phosphate (rock)	($/mt)	44.00	43.75	41.80	40.38	38.00	40.98	42.00
Rubber (Malaysia)	(cents/kg)	62.85	66.72	57.51	76.49	108.27	130.40	150.19
Sugar (EEC)	(cents/kg)	59.44	57.71	52.86	54.92	59.72	66.97	66.54
Sugar (free market)	(c/kg)	13.81	18.04	19.04	15.18	15.63	15.80	21.79
Sugar (US)	(cents/kg)	46.81	44.45	47.04	46.14	47.37	45.47	46.93
Tea (Avg. 3 auctions)	(c/kg)	183.89	187.62	159.80	150.60	151.66	168.56	164.71
Tea (Mombasa)	(c/kg)	179.83	202.86	151.70	149.21	154.36	155.42	147.75
Tobacco	($/mt)	3 041.58	2 976.21	3 011.00	2 744.50	2 646.10	2 740.20	2 700.00

Source: World Bank, *Global Commodity Price Prospects*, February 2006.

Table 10 - Foreign Direct Investment, 1999-2004 ($ million)

	FDI inflows						FDI outflows						FDI inflows / GFCF					
	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
Algeria	**507**	**438**	**1 196**	**1 065**	**634**	**882**	**47**	**18**	**9**	**100**	**14**	**258**	**4.3**	**3.8**	**9.6**	**7.6**	**3.9**	**4.4**
Angola	**2 471**	**879**	**2 146**	**1 672**	**3 505**	**2 048**	**25**	**20**	**15**	**29**	**24**	**30**	**147.0**	**63.9**	**179.1**	**116.8**	**198.3**	**113.5**
Benin	**39**	**60**	**44**	**14**	**45**	**60**	**1**	**4**	**2**	**1**	**0**	**...**	**8.4**	**13.3**	**9.3**	**2.7**	**6.6**	**8.1**
Botswana	**37**	**57**	**31**	**405**	**418**	**47**	**1**	**2**	**381**	**43**	**206**	**274**	**2.6**	**4.3**	**2.4**	**31.0**	**22.5**	**2.1**
Burkina Faso	**8**	**23**	**6**	**15**	**29**	**35**	**0**	**0**	**1**	**2**	**2**	**1**	**1.5**	**4.7**	**1.2**	**2.6**	**4.0**	**3.7**
Burundi	0	12	0	0	0	3	1	0	0	0	0	...	0.4	26.8	0.0	0.0	0.0	3.4
Cameroon	**0**	**0**	**0**	**0**	**0**	**0**	**25**	**- 13**	**28**	**7**	**...**	**...**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Cape Verde	53	32	9	12	14	20	0	1	1	0	...	...	42.5	28.3	8.8	8.9	9.0	10.8
Central African Republic	4	1	5	6	3	- 13	0	0	0	1	0	...	3.1	1.0	6.4	6.0	4.5	-14.9
Chad	**27**	**115**	**460**	**924**	**713**	**478**	**- 2**	**0**	**0**	**0**	**0**	**...**	**12.7**	**37.0**	**67.9**	**73.9**	**52.3**	**47.4**
Comoros	0	0	1	0	1	2	...	...	...	...	...	...	1.4	0.6	5.6	1.7	3.2	6.4
Congo	**521**	**166**	**77**	**137**	**323**	**668**	**2**	**4**	**6**	**6**	**2**	**...**	**83.2**	**26.7**	**10.5**	**20.2**	**36.0**	**65.2**
Congo Dem. Rep.	**11**	**23**	**82**	**117**	**158**	**900**	**- 1**	**- 2**	**1**	**- 2**	**...**	**...**	**1.1**	**15.5**	**30.6**	**23.6**	**22.7**	**108.1**
Cote d'Ivoire	**324**	**235**	**273**	**213**	**165**	**360**	**6**	**8**	**- 5**	**- 4**	**21**	**...**	**17.9**	**20.1**	**26.1**	**17.0**	**12.4**	**23.6**
Djibouti	4	3	3	4	11	33	...	...	...	...	...	...	9.2	6.8	7.4	5.9	12.7	25.5
Egypt	**1 065**	**1 235**	**510**	**647**	**237**	**1 253**	**38**	**51**	**12**	**28**	**21**	**159**	**5.9**	**6.8**	**3.1**	**4.1**	**1.8**	**9.9**
Equatorial Guinea	252	108	945	323	1 431	1 664	2	- 4	4	0	0	...	34.5	24.4	190.2	15.8	85.4	75.0
Eritrea	83	28	12	20	22	30	...	...	...	...	...	...	33.6	13.7	6.3	11.7	16.5	21.1
Ethiopia	**70**	**135**	**349**	**255**	**465**	**545**	**- 46**	**- 1**	**...**	**...**	**...**	**...**	**6.4**	**13.0**	**30.2**	**20.5**	**34.2**	**32.2**
Gabon	**- 218**	**- 43**	**- 89**	**30**	**206**	**323**	**13**	**25**	**4**	**- 32**	**- 57**	**5**	**-19.5**	**-3.8**	**-7.3**	**2.5**	**14.2**	**18.4**
Gambia	49	44	35	43	25	60	4	5	5	5	7	1	62.6	58.9	48.9	53.5	35.5	52.5
Ghana	**244**	**166**	**89**	**59**	**137**	**139**	**60**	**30**	**40**	**44**	**...**	**...**	**15.1**	**13.7**	**6.4**	**5.0**	**7.8**	**5.6**
Guinea	63	10	2	30	79	100	4	0	5	7	...	...	9.7	1.7	0.4	7.3	22.2	22.6
Guinea Bissau	1	1	0	4	4	5	...	...	0	1	1	1	1.9	2.9	1.4	18.2	13.3	14.2
Kenya	**14**	**164**	**59**	**52**	**81**	**46**	**0**	**21**	**77**	**86**	**24**	**49**	**0.7**	**8.0**	**2.5**	**2.3**	**3.4**	**1.8**
Lesotho	33	31	28	27	42	52	...	...	...	0	0	0	7.6	8.5	9.2	8.8	10.0	10.5
Liberia	256	21	8	3	1	20	311	780	- 313	386	80	60	...	...	...	...	...	...
Libya	- 127	141	- 133	145	143	131	223	98	175	- 136	63	62	...	...	...	...	...	...
Madagascar	**58**	**83**	**93**	**8**	**13**	**45**	**...**	**...**	**...**	**...**	**...**	**...**	**10.5**	**14.3**	**11.1**	**1.3**	**1.3**	**3.8**
Malawi	**59**	**26**	**19**	**6**	**10**	**16**	**...**	**...**	**...**	**...**	**...**	**...**	**26.1**	**12.1**	**8.9**	**8.2**	**5.7**	**8.3**
Mali	**2**	**82**	**122**	**244**	**132**	**180**	**1**	**4**	**17**	**2**	**1**	**1**	**0.5**	**13.7**	**19.5**	**38.2**	**14.0**	**16.6**

Table 10 - Foreign Direct Investment, 1999-2004 ($ million) *(cont.)*

	FDI inflows						FDI outflows						FDI inflows / GFCF					
	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
Mauritania	1	40	92	118	214	300	...	1	...	...	- 1	...	0.6	19.5	38.3	48.6	56.1	39.3
Mauritius	49	277	32	33	70	65	6	13	3	9	41	33	4.7	25.0	3.0	3.2	6.1	4.9
Morocco	18	59	97	28	12	31	18	59	97	28	12	31	0.2	0.7	1.3	0.3	0.1	0.3
Mozambique	382	139	255	348	337	132	0	0	0	0	0	0	25.4	11.2	26.7	28.5	27.1	10.8
Namibia	20	186	365	181	149	286	- 1	3	- 13	- 5	- 10	- 21	2.5	29.0	51.7	32.4	15.8	27.2
Niger	0	8	23	2	11	20	0	- 1	- 4	- 2	0	...	0.1	4.2	9.9	0.8	3.0	3.9
Nigeria	1 178	1 310	1 277	2 040	2 171	2 127	173	169	94	172	167	261	11.4	14.1	11.1	16.9	15.8	13.3
Rwanda	2	8	4	7	5	11	...	...	...	...	...	...	0.5	2.6	1.2	2.5	1.5	2.9
São Tomé and Principe	3	4	3	3	7	54	...	...	...	...	...	...	16.1	22.9	20.3	17.5	32.8	243.4
Senegal	153	63	32	78	52	70	11	1	- 7	34	3	4	14.4	6.0	3.0	6.8	3.5	3.8
Seychelles	60	56	65	48	58	60	9	7	9	9	8	5	31.3	32.9	52.0	28.4	91.7	75.4
Sierra Leone	1	39	10	2	3	5	...	...	...	...	...	...	1.5	76.7	16.1	1.7	2.2	2.3
Somalia	- 1	0	0	0	0	9	...	...	...	...	...	...	-0.4	0.1	0.0	0.0	0.1	2.1
South Africa	1 502	888	6 789	757	720	585	1 580	271	-3 180	- 399	577	1 606	7.3	4.4	38.0	4.5	2.7	1.7
Sudan	371	392	574	713	1 349	1 511	...	...	...	...	...	...	...	...	...	...	...	...
Swaziland	100	91	51	90	- 61	69	12	17	- 18	- 1	10	4	38.8	32.6	16.3	37.9	-17.7	16.0
Tanzania	542	282	467	430	527	470	...	...	...	...	...	...	40.8	17.8	29.4	23.1	27.7	22.8
Togo	32	41	64	53	34	60	3	0	- 7	2	- 6	- 3	10.5	14.2	21.4	17.1	7.5	10.9
Tunisia	368	779	486	821	584	639	3	2	0	2	5	4	7.0	15.2	9.3	15.3	10.0	9.8
Uganda	140	181	151	203	211	237	- 8	- 28	...	...	...	...	12.2	15.9	15.1	18.3	16.7	15.4
Zambia	163	122	72	82	172	334	...	...	...	...	...	...	32.5	21.8	10.5	10.5	16.4	26.2
Zimbabwe	59	23	4	26	30	60	9	8	4	3	...	...	7.3	2.7	0.4	1.5	8.6	20.3
Africa	11 886	9 627	20 027	12 994	18 005	18 090	2 530	1 573	-2 557	427	1 215	2 824	11.4	9.6	20.0	12.3	14.5	12.2

Source: UNCTAD, FDI Online Database.

Table 11 - Aid Flows, 1999-2004 ($ million)

	ODA net total, All donors						ODA net total, DAC countries						ODA net total, Multilateral					
	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
Algeria	138	201	224	329	235	313	86	66	63	123	169	235	21	64	107	63	68	78
Angola	388	307	289	421	497	1144	252	189	179	286	372	1015	136	112	110	136	126	131
Benin	211	239	274	216	293	378	119	191	144	140	196	210	93	49	128	74	97	168
Botswana	61	31	29	38	28	39	41	24	24	37	27	33	21	8	4	3	3	8
Burkina Faso	398	336	392	473	507	610	232	228	221	230	266	331	157	104	158	198	238	278
Burundi	74	93	137	172	225	351	52	41	55	85	121	184	22	52	83	87	104	166
Cameroon	435	380	487	657	900	762	254	213	357	436	756	572	184	169	132	220	144	189
Cape Verde	137	94	77	92	143	140	89	70	49	43	90	91	48	25	29	50	53	49
Central African Republic	118	75	67	60	50	105	59	53	48	40	32	55	59	22	19	20	17	50
Chad	188	131	187	229	247	319	64	53	73	67	96	162	116	77	114	160	151	154
Comoros	21	19	27	32	24	25	13	11	10	11	11	14	8	8	16	17	13	11
Congo	142	33	75	57	70	116	121	23	30	41	34	48	20	10	46	16	36	68
Congo, Dem. Rep.	132	184	263	1188	5421	1815	87	103	143	351	5009	1164	45	81	119	836	411	650
Côte d'Ivoire	448	352	170	1069	252	154	366	250	159	831	281	196	81	101	11	237	-29	-43
Djibouti	75	71	58	78	79	64	55	42	28	37	37	39	19	20	30	39	39	27
Egypt	1582	1328	1257	1239	988	1458	1298	1139	1090	1124	775	1177	211	136	105	84	86	261
Equatorial Guinea	20	21	13	20	21	30	15	18	13	14	18	23	6	3	1	7	4	7
Eritrea	149	176	281	230	316	260	80	112	151	121	185	178	50	55	127	97	131	86
Ethiopia	643	693	1116	1307	1553	1823	325	379	367	489	1033	1026	303	298	721	784	487	760
Gabon	48	12	9	72	-11	38	34	-12	-8	49	-41	24	13	23	17	22	30	14
Gambia	34	49	54	61	63	63	13	15	13	18	20	12	19	32	38	40	40	51
Ghana	609	600	644	650	954	1358	356	376	387	406	479	897	250	222	254	238	462	451
Guinea	238	153	282	250	240	279	111	93	122	126	135	178	109	58	160	118	105	101
Guinea Bissau	52	80	59	59	145	76	32	42	30	26	98	29	20	39	29	34	48	48
Kenya	310	512	463	394	514	635	254	293	270	288	320	470	53	214	188	95	192	166
Lesotho	31	37	56	76	78	102	26	22	29	30	33	35	7	16	28	48	46	68
Liberia	94	68	39	52	107	210	45	24	16	27	70	162	49	44	24	26	37	48
Libya*	7	…	…	…	…	…	3	…	…	…	…	…	4	…	…	…	…	…
Madagascar	359	322	374	373	539	1236	192	139	146	126	225	685	166	185	229	248	314	552
Malawi	447	446	404	377	518	476	228	269	196	225	314	308	214	171	198	142	202	166
Mali	355	360	354	467	543	567	237	300	209	257	272	328	117	61	132	156	272	241

Table 11 - **Aid Flows, 1999-2004** ($ million) *(cont.)*

	ODA net total, All donors						ODA net total, DAC countries						ODA net total, Multilateral					
	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
Mauritania	219	212	268	345	239	180	89	82	81	147	136	83	125	129	188	200	106	96
Mauritius	**42**	**20**	**22**	**24**	**-15**	**38**	**5**	**12**	**8**	**4**	**-18**	**15**	**37**	**7**	**6**	**20**	**3**	**25**
Morocco	**679**	**419**	**519**	**487**	**523**	**706**	**333**	**293**	**342**	**217**	**336**	**393**	**316**	**130**	**142**	**136**	**156**	**242**
Mozambique	**805**	**877**	**933**	2203	1039	1228	**593**	**624**	**720**	**1661**	**697**	**728**	**213**	**253**	**208**	**593**	**339**	**497**
Namibia	**179**	**153**	**110**	**135**	**147**	**179**	117	97	77	85	110	130	60	55	31	48	34	34
Niger	**187**	**211**	**257**	**298**	**457**	**536**	**120**	**106**	**114**	**114**	**245**	**306**	**66**	**105**	**142**	**181**	**213**	**230**
Nigeria	**152**	**185**	**185**	**314**	**318**	**573**	**53**	**84**	**108**	**215**	**200**	**314**	**96**	**100**	**79**	**101**	**118**	**260**
Rwanda	**373**	**322**	**299**	**355**	**333**	**468**	**181**	**175**	**149**	**199**	**213**	**217**	**193**	**146**	**150**	**156**	**120**	**250**
São Tomé and Principe	28	35	38	26	38	33	19	18	22	19	25	22	8	17	16	7	12	12
Senegal	**535**	**423**	**413**	**445**	**446**	**1052**	**416**	**288**	**224**	**243**	**314**	**755**	**115**	**140**	**189**	**192**	**135**	**296**
Seychelles	13	18	14	8	9	10	5	3	8	4	5	6	6	8	5	4	3	3
Sierra Leone	74	182	345	353	303	360	60	116	167	225	208	163	13	67	176	125	92	196
Somalia	115	104	150	194	175	191	76	56	88	102	114	139	39	47	47	47	62	51
South Africa	**541**	**488**	**428**	**505**	**625**	**617**	**386**	**354**	**313**	**375**	**477**	**460**	**153**	**132**	**114**	**129**	**147**	**156**
Sudan	243	225	185	351	617	882	159	90	108	232	332	745	58	36	68	68	282	112
Swaziland	29	13	29	**22**	**28**	**117**	15	3	4	7	13	105	14	10	22	12	14	12
Tanzania	**990**	**1022**	**1271**	1233	1704	1746	**613**	**779**	**944**	**903**	**966**	**1029**	**376**	**246**	**333**	**333**	**738**	**714**
Togo	71	70	44	**51**	**47**	**61**	47	52	28	39	46	52	21	16	12	9	-2	9
Tunisia	**253**	**223**	**378**	**265**	**298**	**328**	**102**	**150**	**184**	**145**	**208**	**231**	**161**	**72**	**193**	**78**	**95**	**96**
Uganda	**590**	**819**	**793**	**712**	**977**	**1159**	**357**	**578**	**386**	**466**	**587**	**683**	**232**	**236**	**405**	**241**	**388**	**475**
Zambia	**624**	**795**	**349**	**641**	**581**	**1081**	**340**	**486**	**274**	**360**	**592**	**745**	**283**	**309**	**74**	**279**	**-16**	**333**
Zimbabwe	245	178	164	201	186	186	219	193	149	178	161	165	25	-14	19	22	25	21
Africa Unspecified	1145	1319	1331	1635	2151	2405	893	969	1045	1341	1758	1934	250	337	272	255	390	470
Africa Total	**16074**	**15717**	**16681**	**21540**	**26781**	**29080**	**10340**	**10373**	**10159**	**13362**	**19158**	**19301**	**5485**	**5045**	**6244**	**7478**	**7380**	**9594**

Note: ODA : Official Development Assistance.
DAC : Development Assistance Committee of OECD.
* Libya belongs to the recipient countries of Official Aid (OA) since 2000.
Source: OECD Development Assistance Committee.

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		
	1999	2000	2001	2002	2003	2004	1999	2004	2004	2004			1999	2004
Algeria	27 997	25 272	22 587	22 881	23 573	21 987	61.8	29.8	95.1	16.36	58.2	25.4	39.8	16.9
Angola	10 299	9 408	9 234	9 189	9 316	9 521	221.2	65.9	90.7	4.4	35.4	60.2	26.8	14.9
Benin	1 687	1 591	1 661	1 836	1 828	1 916	71.1	52.3	95.3	77.1	22.7	0.2	18.2	13.3
Botswana	504	453	400	488	514	524	10.6	7.0	93.2	67.2	30.0	2.9	2.7	1.2
Burkina Faso	1 588	1 426	1 496	1 548	1 736	1 967	56.6	44.3	92.7	92.7	7.4	0.0	22.4	13.0
Burundi	1 135	1 108	1 076	1 214	1 328	1 385	161.5	206.9	95.6	85.8	13.6	0.5	47.5	149.0
Cameroon	9 479	9 294	8 399	8 553	9 414	9 496	108.7	72.3	90.1	20.3	71.3	8.4	28.4	17.2
Cape Verde	327	327	361	414	486	517	56.9	60.7	89.6	77.3	17.9	4.8	15.2	8.5
Central African Republic	909	858	822	1 065	1 038	1 078	87.6	87.9	85.9	73.1	23.7	3.3	9.7	11.6
Chad	1 151	1 138	1 136	1 323	1 590	1 701	75.7	74.7	93.0	87.7	10.2	2.1	12.8	2.3
Comoros	237	238	248	276	293	306	106.2	93.4	90.0	81.2	18.8	0.0	12.2	5.8
Congo	5 033	4 887	4 491	5 153	5 527	5 829	305.9	196.0	86.6	12.0	71.1	17.0	1.5	9.5
Congo, Dem. Rep.	12 048	11 692	11 519	10 060	11 254	11 841	279.1	184.5	88.9	29.4	67.0	3.6	2.0	6.5
Cote d Ivoire	13 170	12 138	11 618	11 791	12 187	11 739	112.2	88.5	92.3	31.8	37.1	31.1	28.6	7.8
Djibouti	275	262	263	335	396	429	50.1	58.0	91.9	69.7	28.9	1.4	5.0	7.3
Egypt. Arab Rep.	31 045	29 187	29 333	30 001	31 383	30 292	34.5	33.6	90.3	14.6	81.8	3.6	14.5	10.1
Equatorial Guinea	271	248	239	260	319	291	65.1	...	84.0	49.0	43.9	7.1	0.7	0.1
Eritrea	253	311	414	520	635	681	29.4	84.4	97.9	72.3	27.7	0.0	5.0	24.2
Ethiopia	5 544	5 483	5 727	6 526	7 187	6 574	86.0	84.9	96.6	75.8	20.2	4.0	17.0	8.5
Gabon	3 982	3 920	3 423	3 546	3 792	4 150	104.5	76.6	91.6	12.2	81.4	6.4	19.3	5.1
Gambia	465	483	488	577	635	674	113.1	162.9	92.3	80.8	19.0	0.2	10.7	16.7
Ghana	6 420	6 116	6 343	6 962	7 551	7 035	85.1	87.0	83.3	87.2	7.4	5.4	17.2	7.9
Guinea	3 522	3 388	3 254	3 401	3 457	3 538	104.3	96.1	90.1	60.0	39.1	0.9	17.1	21.4
Guinea-Bissau	934	804	668	699	745	765	444.4	305.7	96.5	64.7	35.3	0.0	14.3	46.9
Kenya	6 475	6 145	5 561	6 169	6 860	6 826	62.3	45.5	87.7	57.2	37.2	5.6	25.4	8.1
Lesotho	682	672	598	658	707	764	59.1	57.2	95.0	77.5	12.7	9.8	23.6	6.5
Liberia	2 077	2 032	2 164	2 324	2 568	2 706	621.2	692.3	43.2	39.4	42.9	17.7	...	...
Libya	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Madagascar	4 745	4 691	4 153	4 511	4 952	3 462	129.1	66.8	93.3	83.5	16.1	0.4	17.5	5.8
Malawi	2 742	2 706	2 585	2 887	3 099	3 418	155.1	177.8	96.5	83.1	16.6	0.2	14.7	13.3
Mali	3 196	2 980	2 910	2 827	3 114	3 316	126.5	76.5	94.4	72.5	27.5	0.0	15.4	8.2

Table 12 - External Debt Indicators *(cont.)*

Country	Stock of total external debt ($ million, current prices) 1999	2000	2001	2002	2003	2004	Stock of total external debt / GNP (%) 1999	2004	Long-term debt /total debt (%) 2004	Distribution of long-term debt (%) 2004 Multilateral	Bilateral	Private	Total debt service paid / exports of goods and services (%) 1999	2004
Mauritania	2 532	2 378	2 263	2 240	2 328	2 297	274.8	189.8	89.1	69.6	29.9	0.5	21.2	14.5
Mauritius	**1 847**	**1 720**	**1 723**	**1 808**	**2 550**	**2 294**	**44.5**	**40.0**	**41.0**	**28.6**	**33.1**	**38.3**	**7.4**	**7.7**
Morocco	**22 973**	**20 713**	**19 163**	**18 399**	**18 910**	**17 672**	**67.1**	**38.0**	**98.8**	**34.5**	**33.1**	**32.4**	**29.7**	**18.1**
Mozambique	**6 971**	**7 000**	**4 443**	**4 592**	**4 543**	**4 651**	**184.6**	**98.7**	**88.3**	**52.5**	**24.3**	**23.2**	**18.0**	**4.7**
Namibia	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Niger	**1 668**	**1 673**	**1 583**	**1 791**	**2 084**	**1 950**	**83.4**	**68.8**	**92.9**	**87.7**	**10.1**	**2.2**	**9.7**	**10.5**
Nigeria	**29 128**	**31 355**	**31 042**	**30 476**	**34 963**	**35 890**	**87.5**	**66.5**	**87.2**	**9.5**	**83.4**	**7.2**	**7.7**	**6.2**
Rwanda	**1 294**	**1 273**	**1 285**	**1 437**	**1 540**	**1 656**	**67.4**	**88.3**	**93.3**	**90.8**	**9.1**	**0.1**	**27.8**	**15.8**
São Tomé and Principe	324	322	321	343	349	362	767.1	602.9	96.5	60.7	39.3	0.0	26.7	43.9
Senegal	**3 944**	**3 607**	**3 665**	**4 121**	**4 447**	**3 938**	**84.7**	**56.5**	**93.9**	**79.5**	**15.9**	**4.5**	**16.1**	**16.4**
Seychelles	254	395	502	535	548	615	42.5	89.8	83.5	14.5	35.5	50.0	6.4	8.2
Sierra Leone	1 298	1 229	1 295	1 443	1 606	1 723	199.8	154.8	88.2	60.7	38.5	0.8	29.1	11.9
Somalia	2 606	2 562	2 563	2 689	2 838	2 849	…	…	68.4	40.7	57.4	1.9	0.5	0.0
South Africa	**23 907**	**24 861**	**24 050**	**25 041**	**27 807**	**28 500**	**18.7**	**17.2**	**72.2**	**1.3**	**0.0**	**98.7**	**12.7**	**6.8**
Sudan	16 132	16 394	16 507	17 297	18 389	19 332	170.6	106.5	63.2	20.8	55.8	23.4	…	…
Swaziland	361	289	284	342	435	470	25.5	25.3	97.0	52.9	32.5	14.6	3.6	2.2
Tanzania	**7 655**	**6 931**	**6 245**	**6 800**	**6 990**	**7 800**	**89.6**	**67.5**	**80.0**	**76.6**	**21.7**	**1.7**	**17.6**	**6.0**
Togo	1 523	1 433	1 407	1 587	1 715	1 812	100.6	97.0	88.1	59.9	40.1	0.0	9.2	2.1
Tunisia	**11 860**	**11 307**	**11 739**	**14 003**	**16 736**	**18 700**	**59.6**	**71.1**	**86.9**	**37.8**	**19.9**	**42.3**	**17.7**	**15.5**
Uganda	**3 498**	**3 497**	**3 731**	**3 992**	**4 555**	**4 822**	**58.8**	**69.8**	**93.3**	**91.3**	**8.2**	**0.5**	**17.8**	**11.2**
Zambia	**5 859**	**5 723**	**6 069**	**6 452**	**6 914**	**7 246**	**196.9**	**152.6**	**86.2**	**50.5**	**36.4**	**13.2**	**17.3**	**22.7**
Zimbabwe	4 323	3 827	3 590	3 886	4 483	4 798	83.9	…	75.1	44.7	40.8	14.5	22.7	4.7

Sources: World Bank, *Global Development Finance Online*.
Exports of goods and services: IMF, *World Economic Outlook* (September 2005).

Table 13 - **Demographic Indicators**

	Total population (thousands) 2005	Urban population (% of total) 2005	Sex ratio (males per 100 females) 2005	Population growth rate (%) 1995-2000	2000-2005	Infant mortality rate (per 1000) 2005	Total fertility rate 2005	Mortality under age 5 (per 1000) 2005	Distribution by age (%) 2005 0-14	15-64	65+
Algeria	**32 854**	**60.0**	**101.8**	**1.6**	**1.5**	**33.5**	**2.4**	**36**	**29.6**	**66.8**	**4.5**
Angola	**15 941**	**33.9**	**97.3**	**2.5**	**2.8**	**133.5**	**6.6**	**236**	**46.5**	**52.6**	**2.5**
Benin	**8 439**	**38.8**	**101.6**	**3.0**	**3.2**	**100.6**	**5.6**	**153**	**44.2**	**54.8**	**2.7**
Botswana	**1 765**	**53.6**	**96.6**	**1.7**	**0.3**	**45.9**	**3.0**	**101**	**37.6**	**58.9**	**3.3**
Burkina Faso	**13 228**	**19.4**	**101.1**	**2.8**	**3.1**	**118.0**	**6.5**	**190**	**47.2**	**51.7**	**2.7**
Burundi	7 548	10.3	95.4	1.1	2.8	101.7	6.8	179	45.0	54.2	2.7
Cameroon	**16 322**	**53.7**	**99.0**	**2.3**	**1.9**	**92.1**	**4.3**	**159**	**41.2**	**56.1**	**3.7**
Cape Verde	507	54.7	92.3	2.3	2.3	26.7	3.5	32	39.5	57.5	4.3
Central African Republic	4 038	42.9	95.2	2.1	1.4	95.2	4.7	171	43.0	53.7	4.1
Chad	**9 749**	**24.1**	**97.9**	**3.1**	**3.4**	**113.3**	**6.7**	**198**	**47.3**	**51.3**	**3.0**
Comoros	798	37.0	100.7	2.8	2.7	52.1	4.5	69	42.0	56.8	2.7
Congo	**3 999**	**53.3**	**98.4**	**3.3**	**3.1**	**69.7**	**6.3**	**104**	**47.1**	**51.4**	**2.9**
Congo Dem. Rep.	**57 549**	**31.9**	**98.4**	**2.3**	**2.7**	**114.9**	**6.7**	**203**	**47.3**	**51.6**	**2.7**
Côte d'Ivoire	**18 154**	**43.3**	**103.4**	**2.6**	**1.7**	**115.6**	**4.7**	**186**	**41.9**	**55.7**	**3.3**
Djibouti	793	76.9	100.0	3.0	2.2	87.5	4.7	131	41.5	56.7	2.8
Egypt	**74 033**	**42.7**	**100.6**	**1.9**	**1.9**	**32.7**	**3.1**	**38**	**33.6**	**62.8**	**4.8**
Equatorial Guinea	504	51.6	98.0	2.4	2.3	97.5	5.9	174	44.4	52.9	3.9
Eritrea	4 401	21.1	96.4	2.5	4.2	60.0	5.2	86	44.8	55.1	2.3
Ethiopia	**77 431**	**15.5**	**99.0**	**2.7**	**2.5**	**94.3**	**5.6**	**163**	**44.5**	**53.8**	**2.9**
Gabon	**1 384**	**84.6**	**99.2**	**2.6**	**1.8**	**53.8**	**3.7**	**91**	**40.0**	**56.5**	**4.4**
Gambia	1 517	25.8	98.3	3.3	2.9	71.6	4.4	118	40.1	57.6	3.7
Ghana	**22 113**	**45.7**	**102.5**	**2.3**	**2.2**	**58.3**	**4.1**	**95**	**39.0**	**58.5**	**3.7**
Guinea	9 402	34.1	105.1	2.5	2.2	100.3	5.7	154	43.7	53.9	3.5
Guinea Bissau	1 586	35.5	97.6	2.8	3.0	114.5	7.1	201	47.5	50.9	3.1
Kenya	**34 256**	**39.9**	**100.3**	**2.5**	**2.2**	**64.8**	**5.0**	**112**	**42.8**	**55.7**	**2.8**
Lesotho	1 795	18.2	87.0	1.1	0.2	61.8	3.4	117	38.6	56.1	5.3
Liberia	3 283	52.5	99.6	6.6	2.0	136.0	6.8	215	47.1	51.4	2.2
Libya	5 853	85.6	106.6	2.0	2.0	17.7	2.8	19	30.1	67.2	4.1
Madagascar	**18 606**	**26.7**	**99.0**	**3.0**	**2.8**	**74.3**	**5.1**	**123**	**44.0**	**54.3**	**3.1**
Malawi	**12 884**	**16.7**	**98.6**	**2.4**	**2.3**	**105.9**	**5.8**	**174**	**47.3**	**50.7**	**3.0**
Mali	**13 518**	**34.4**	**99.3**	**2.7**	**3.0**	**128.9**	**6.7**	**212**	**48.2**	**50.5**	**2.7**

Table 13 - **Demographic Indicators** *(cont.)*

	Total population (thousands) 2005	Urban population (% of total) 2005	Sex ratio (males per 100 females) 2005	Population growth rate (%) 1995-2000	Population growth rate (%) 2000-2005	Infant mortality rate (per 1000) 2005	Total fertility rate 2005	Mortality under age 5 (per 1000) 2005	Distribution by age (%) 2005 0-14	Distribution by age (%) 2005 15-64	Distribution by age (%) 2005 65+
Mauritania	3 069	64.3	97.8	2.8	3.0	91.5	5.6	147	43.0	55.2	3.4
Mauritius*	**1 245**	**43.7**	**98.6**	**1.1**	**1.0**	**14.3**	**2.0**	**17**	**24.6**	**69.5**	**6.6**
Morocco	**31 478**	**58.9**	**98.8**	**1.6**	**1.5**	**34.0**	**2.7**	**41**	**31.1**	**65.0**	**4.8**
Mozambique	**19 792**	**37.4**	**93.8**	**2.6**	**2.0**	**94.8**	**5.3**	**170**	**44.0**	**53.7**	**3.3**
Namibia	2 031	33.5	98.3	2.8	1.5	39.5	3.7	74	41.5	55.6	3.5
Niger	**13 957**	**21.5**	**104.6**	**3.4**	**3.4**	**148.3**	**7.7**	**254**	**49.0**	**50.7**	**2.0**
Nigeria	**131 530**	**47.8**	**102.4**	**2.5**	**2.3**	**110.6**	**5.5**	**194**	**44.3**	**53.9**	**3.0**
Rwanda	**9 038**	**20.7**	**94.0**	**6.2**	**3.1**	**113.6**	**5.4**	**190**	**43.5**	**55.0**	**2.5**
São Tomé and Principe	157	40.9	98.6	1.8	2.2	79.8	3.8	107	39.5	57.6	4.3
Senegal	**11 658**	**46.4**	**96.8**	**2.5**	**2.4**	**79.7**	**4.7**	**126**	**42.6**	**55.6**	**3.1**
Seychelles	81	50.8	...	0.5	0.8	...	...	...	...	...	...
Sierra Leone	5 525	38.9	97.3	1.5	3.9	161.9	6.5	283	42.8	55.8	3.3
Somalia	8 228	46.9	98.4	1.7	3.2	118.3	6.2	197	44.1	55.0	2.6
South Africa	**47 432**	**55.3**	**96.5**	**1.8**	**0.9**	**40.4**	**2.7**	**73**	**32.6**	**63.4**	**4.2**
Sudan	36 233	39.4	101.3	2.3	2.0	67.8	4.1	112	39.2	58.3	3.6
Swaziland	1 032	25.1	93.1	1.5	0.3	67.5	3.7	138	41.0	55.4	3.5
Tanzania	**38 329**	**37.5**	**99.0**	**2.4**	**2.0**	**104.2**	**4.7**	**162**	**42.6**	**55.2**	**3.2**
Togo	6 145	30.3	97.6	3.4	2.8	89.5	5.0	131	43.5	54.8	3.1
Tunisia	**10 102**	**64.0**	**101.5**	**1.3**	**1.1**	**20.3**	**1.9**	**23**	**25.9**	**68.5**	**6.3**
Uganda	**28 816**	**11.9**	**100.1**	**3.0**	**3.4**	**78.4**	**7.1**	**133**	**50.5**	**48.8**	**2.5**
Zambia	**11 668**	**34.5**	**100.3**	**2.3**	**1.8**	**91.0**	**5.4**	**166**	**45.8**	**52.0**	**3.0**
Zimbabwe	13 010	35.7	98.4	1.4	0.7	60.2	3.3	115	40.0	56.7	3.6
Africa	**904 804**	**38.9**	**99.8**	**2.4**	**2.2**	**79.3**	**4.8**	**140**	**41.5**	**56.3**	**3.4**

Note: * Including Agalega, Rodrigues and Saint Brandon.
Sources: United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects*, *The 2004 Revision* and authors' calculations.

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	1998	16.6	7.3	12.2	1995	1.8	15.1	1995	35.3	2.8	26.8
Angola	2001	94.3	57.0	68.0	...	...	...	...	...	...	...
Benin	2002	31.6	23.6	28.5	...	...	...	...	...	...	...
Botswana	2002-2003	...	...	30.3	1993[a]	23.5	50.1	1993	63.0	0.7	56.6
Burkina Faso	2003	52.3	19.9	46.4	1998[a]	44.9	81.0	2003	38.0	1.8	46.3
Burundi	1990	36.0	43.0	36.2	1998[a]	54.6	87.6	1998	42.0	1.7	32.8
Cameroon	2001	49.9	22.1	40.2	2001[a]	17.1	50.6	2001	44.6	2.3	35.4
Cape Verde	...	...	...	...	...	...	...	...	...	...	...
Central African Republic	...	...	...	...	1993[a]	66.6	84.0	1993	61.3	0.7	47.7
Chad	1995-1996	59.2	57.5	58.7	...	...	...	...	...	...	...
Comoros	...	...	...	...	...	...	...	1995	33.9	...	...
Congo	...	...	...	...	...	...	...	...	...	...	...
Congo, Dem. Rep.	...	...	...	...	...	...	...	...	...	...	...
Côte d'Ivoire	1998	41.8	23.4	33.6	2002[a]	14.8	48.8	2002	44.6	2.0	34.0
Djibouti	1996	86.5	...	45.1	...	...	...	1996	38.6	...	...
Egypt	2004-2005	...	...	20.0	2000[a]	3.1	43.9	2000	34.4	3.7	29.5
Equatorial Guinea	...	...	...	...	...	...	...	...	...	...	...
Eritrea	1993-1994	...	...	53.0	...	...	...	...	...	...	...
Ethiopia	1999-2000	45.0	37.0	44.2	1999-00[a]	23.0	77.8	2000	30.0	3.9	25.5
Gabon	1994	...	...	62.0*	1994	23.0	...	1977	63.2	...	...
Gambia	1998	...	...	64.0	1998[a]	59.3	82.9	1998	48.0	1.8	37.0
Ghana	1998-99	51.6	22.8	42.6	1999[a]	44.8	78.5	1999	40.8	2.1	30.0
Guinea	1994	...	...	40.0	1991	26.3	50.2	2003	39.0	2.6	32.0
Guinea Bissau	2002	...	...	20.8	1991	88.2	96.7	1993	40.0	2.1	39.3
Kenya	2000	...	...	51.8	1997[a]	22.8	58.3	1997	44.0	2.5	33.9
Lesotho	1993	53.9	27.8	49.2	1995[a]	36.4	56.1	1995	63.2	0.5	48.3
Liberia	2002	...	...	76.2	...	...	...	...	...	...	...
Libya	...	...	...	...	...	...	...	...	...	...	...
Madagascar	2004	77.0	54.0	72.0	2001[a]	61.0	85.1	2001	46.0	1.9	36.6
Malawi	1997-1998	66.5	54.9	65.3	1997-98[a]	41.7	76.1	1997	50.3	1.9	42.2
Mali	1999	71.0	31.0	64.2	1994	72.3	90.6	2001	39.0	1.8	40.4

Table 14 - Poverty and Income Distribution Indicators *(cont.)*

	National poverty line Population below the poverty line (%)				International poverty line Population below the poverty line (%)			Gini Coefficient**		Share of consumption (%)	
	Survey year	Rural	Urban	National	Survey year	Below 1$	Below 2$	Survey year		Lowest 10%	Highest 10%
Mauritania	2000	61.2	25.4	46.3	2000[a]	25.9	63.1	2000	38.0	2.5	29.5
Mauritius	**1997**	...	...	**12.1**	...	...	...	**1991**	**36.7**	...	...
Morocco	**1999**	**27.2**	**12.0**	**19.0**	**1999[a]**	**<2.0**	**14.3**	**1999**	**39.5**	**2.6**	**30.9**
Mozambique	**2002/03**	**55.0**	**52.0**	**54.0**	**1996[a]**	**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**	**60.6**	**85.8**	**1995**	**50.5**	**0.8**	**35.4**
Nigeria	**2003-2004**	**63.3**	**43.2**	**54.4**	**2003**	**70.8**	**92.4**	**2003**	**41.0**	**1.6**	**40.8**
Rwanda	**1999-00**	**65.7**	**14.3**	**60.3**	**1999-00[a]**	**51.7**	**83.7**	**1985**	**28.9**	**4.2**	**24.2**
São Tomé and Principe	2001	...	...	53.8	...	...	...	...	...	...	...
Senegal	**2001**	...	...	**53.9**	**1995**	**22.3**	**63.0**	**1995**	**40.0**	**2.6**	**33.5**
Seychelles	...	...	...	...	...	...	...	1984	47.0	...	...
Sierra Leone	2003-04	79.0	56.4	70.2	1989	57.0	74.5	1989	62.9	0.5	43.6
Somalia	...	...	...	...	...	...	...	...	...	...	...
South Africa	**2001**	...	...	**57.0**	**2000[a]**	**10.7**	**34.1**	**2000**	**57.8**	**1.4**	**44.7**
Sudan	...	...	...	...	...	...	...	...	...	...	...
Swaziland	1995	...	...	40.0	1994[a]	8.0	22.5	1994	60.9	1.0	50.2
Tanzania	**2000-2001**	**38.7**	**29.5**	**35.7**	**1993**	**19.9**	**59.7**	**2001**	**35.0**	**2.8**	**30.1**
Togo	1995	...	...	72.2	...	...	...	...	...	...	...
Tunisia	**2000**	...	...	**4.2**	**2000[a]**	**<2.0**	**6.6**	**2000**	**39.8**	**2.3**	**31.5**
Uganda	**2003**	...	...	**38.0**	**1999[a]**	**84.9**	**96.6**	**1999**	**43.0**	**2.3**	**34.9**
Zambia	**2002-2003**	...	...	**67.0**	**1998**	**63.7**	**87.4**	**1998**	**52.6**	**1.0**	**41.0**
Zimbabwe	1995-96	48.0	7.9	34.9	1995-96[a]	56.1	83.0	1995	56.8	1.8	40.3

Note: * The national poverty line is defined as two-thirds of the average consumption.
** The Gini coefficient is defined on consumption.
a Expenditure base.
Sources: Domestic authorities and World Bank, *World Development Report 2006.*

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)
		Without AIDS			as % of GDP	Per capita ($)	Distribution Public (%)	Distribution Private (%)	
	2000-2005		2000-2002	2003	2002				2002
Algeria	**71.0**	**...**	**6**	**3 055**	**4.3**	**77.0**	**74.0**	**26.0**	**9.1**
Angola	**40.7**	**44.0**	**40**	**2 089**	**5.0**	**38.0**	**41.9**	**58.1**	**4.1**
Benin	**53.8**	**57.1**	**15**	**2 574**	**4.7**	**20.0**	**44.4**	**55.6**	**11.1**
Botswana	**36.6**	**68.7**	**32**	**2 196**	**6.0**	**171.0**	**61.9**	**38.1**	**7.5**
Burkina Faso	**47.4**	**53.1**	**19**	**2 516**	**4.3**	**11.0**	**45.9**	**54.1**	**10.6**
Burundi	43.5	51.0	68	1 647	3.0	3.0	21.5	78.5	2.0
Cameroon	**45.8**	**53.6**	**25**	**2 286**	**4.6**	**31.0**	**26.2**	**73.8**	**7.9**
Cape Verde	70.2	...	...	3 216	5.0	69.0	75.1	24.9	11.1
Central African Republic	39.4	53.4	43	1 932	3.9	11.0	41.6	58.4	7.4
Chad	**43.6**	**48.6**	**34**	**2 147**	**6.5**	**14.0**	**41.9**	**58.1**	**12.2**
Comoros	63.0	...	25	1 760	2.9	10.0	58.0	42.0	8.2
Congo	**51.9**	**60.2**	**37**	**2 183**	**2.2**	**18.0**	**70.3**	**29.7**	**6.0**
Congo Dem. Rep.	**43.1**	**48.0**	**71**	**1 606**	**4.1**	**4.0**	**30.2**	**69.8**	**16.4**
Côte d'Ivoire	**46.0**	**54.0**	**14**	**2 644**	**6.2**	**44.0**	**22.4**	**77.6**	**7.2**
Djibouti	52.7	55.6	...	2 239	6.3	54.0	52.9	47.1	10.1
Egypt	**69.6**	**...**	**3**	**3 356**	**4.9**	**59.0**	**36.6**	**63.4**	**6.0**
Equatorial Guinea	43.5	52.2	...	...	1.8	83.0	72.2	27.8	9.8
Eritrea	53.5	57.6	73	1 520	5.1	8.0	63.7	36.3	5.6
Ethiopia	**47.6**	**52.2**	**46**	**1 858**	**5.7**	**5.0**	**44.9**	**55.1**	**7.6**
Gabon	**54.6**	**63.0**	**6**	**2 671**	**4.3**	**159.0**	**41.3**	**58.7**	**6.3**
Gambia	55.5	57.3	27	2 288	7.3	18.0	44.6	55.4	12.0
Ghana	**56.7**	**61.2**	**13**	**2 680**	**5.6**	**17.0**	**41.0**	**59.0**	**8.4**
Guinea	53.6	57.0	26	2 447	5.8	22.0	15.5	84.5	4.8
Guinea Bissau	44.6	47.7	25	2 051	6.3	9.0	48.2	51.8	8.5
Kenya	**47.0**	**60.5**	**33**	**2 155**	**4.9**	**19.0**	**44.0**	**56.0**	**8.4**
Lesotho	36.7	63.9	12	2 626	6.2	25.0	84.9	15.1	10.9
Liberia	42.5	46.6	46	1 930	2.1	4.0	68.0	32.0	5.5
Lybia	73.4	...	...	3 337	3.3	121.0	47.2	52.8	5.0
Madagascar	**55.3**	**56.8**	**37**	**2 056**	**2.1**	**5.0**	**55.0**	**45.0**	**8.0**
Malawi	**39.6**	**56.7**	**33**	**2 125**	**9.8**	**14.0**	**41.1**	**58.9**	**9.7**
Mali	**47.8**	**49.9**	**29**	**2 237**	**4.5**	**12.0**	**50.8**	**49.2**	**9.0**

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)
		Without AIDS			as % of GDP	Per capita ($)	Distribution Public (%)	Distribution Private (%)	
	2000-2005		2000-2002	2003	2002				2002
Mauritania	52.5	...	10	2 786	3.9	14.0	74.2	25.8	10.1
Mauritius*	**72.1**	**...**	**8**	**2 970**	**2.9**	**113.0**	**76.9**	**23.1**	**8.3**
Morocco	**69.5**	**...**	**7**	**3 098**	**4.6**	**55.0**	**32.8**	**67.2**	**4.9**
Mozambique	**41.9**	**52.6**	**47**	**2 082**	**5.8**	**11.0**	**71.0**	**29.0**	**19.9**
Namibia	48.6	68.4	22	2 290	6.7	99.0	70.1	29.9	12.9
Niger	**44.3**	**45.3**	**34**	**2 170**	**4.0**	**7.0**	**50.8**	**49.2**	**10.0**
Nigeria	**43.3**	**49.0**	**9**	**2 714**	**4.7**	**19.0**	**25.6**	**74.4**	**3.3**
Rwanda	**43.6**	**48.7**	**38**	**2 071**	**5.5**	**11.0**	**57.2**	**42.8**	**13.4**
São Tomé and Principe	62.9	...	...	2 468	11.1	36.0	87.7	12.3	14.5
Senegal	**55.6**	**...**	**24**	**2 374**	**5.1**	**27.0**	**45.2**	**54.8**	**11.2**
Seychelles	...	...	...	2 484	5.2	425.0	74.3	25.7	6.6
Sierra Leone	40.6	42.7	50	1 943	2.9	6.0	60.3	39.7	6.8
Somalia	46.2	...	71	...	...	...	...	...	...
South Africa	**49.0**	**67.0**	**...**	**2 962**	**8.7**	**206.0**	**40.6**	**59.4**	**10.7**
Sudan	56.3	58.6	27	2 260	4.9	19.0	20.7	79.3	6.3
Swaziland	32.9	63.6	19	2 343	6.0	66.0	59.5	40.5	10.9
Tanzania	**46.0**	**58.0**	**44**	**1 959**	**4.9**	**13.0**	**54.8**	**45.2**	**14.9**
Togo	54.2	60.7	26	2 358	10.5	36.0	10.8	89.2	7.8
Tunisia	**73.1**	**...**	**1**	**3 247**	**5.8**	**126.0**	**49.9**	**50.1**	**7.5**
Uganda	**46.8**	**56.5**	**19**	**2 360**	**7.4**	**18.0**	**27.9**	**72.1**	**9.1**
Zambia	**37.4**	**54.3**	**49**	**1 975**	**5.8**	**20.0**	**52.9**	**47.1**	**11.8**
Zimbabwe	37.2	63.5	44	2 004	8.5	118.0	51.6	48.4	12.2
Africa	**45.7**	**53.6**	**28**	**2 437**	**5.6**	**38.0**	**43.0**	**57.0**	**8.0**

Note: * Including Agalega, Rodrigues and Saint Brandon.

Sources: Life expectancy at birth : United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects*, *The 2004 Revision.*
Undernourishment prevalence and food availability: FAO, *The State of Food Insecurity in the World 2005* and *Faostat, March 2006*.
Total health expenditure and public health expenditure: WHO, *The World Health Report 2005.*

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			2002			2002				
Algeria	60.6	59.7	61.6	87	92	80	92	99	82	2003	114.1	245.6
Angola	33.4	31.6	35.1	50	70	40	30	56	16	1997	7.7	114.5
Benin	44.0	43.4	44.5	68	79	60	32	58	12	2001	34.6	20.4
Botswana	35.7	36.0	35.4	95	100	90	41	57	25	2005	37.7	240.3
Burkina Faso	35.6	34.9	36.3	51	82	44	12	45	5	2001	4.0	26.0
Burundi	35.1	33.4	36.8	79	90	78	36	47	35	2000	5.2	28.5
Cameroon	41.5	41.1	41.8	63	84	41	48	63	33	1999	6.5	28.1
Cape Verde	60.8	58.8	62.9	80	86	73	42	61	19	1996	17.1	55.6
Central African Republic	37.4	37.0	37.7	75	93	61	27	47	12	1995	3.5	8.8
Chad	40.7	39.7	41.7	34	40	32	8	30	0	2002	3.1	13.2
Comoros	54.6	53.9	55.3	94	90	96	23	38	15	1999	7.2	34.0
Congo	46.3	45.3	47.3	46	72	17	9	14	2	2000	15.7	41.9
Congo Dem. Rep.	37.1	35.0	39.1	84	98	74	40	61	23	1999	5.0	*43.5*
Côte d'Ivoire	39.5	37.6	41.3	46	83	29	29	43	23	1999	6.2	30.2
Djibouti	42.9	42.5	43.2	80	82	67	50	55	27	1999	13.2	65.4
Egypt	59.0	57.8	60.2	98	100	97	68	84	56	2000	211.0	275.9
Equatorial Guinea	45.5	44.7	46.3	44	45	42	53	60	46	1999	22.6	39.7
Eritrea	50.0	49.3	50.8	57	72	54	9	34	3	1996	3.0	16.0
Ethiopia	41.2	40.7	41.7	22	81	11	6	19	4	2002	2.8	18.9
Gabon	51.4	50.2	52.6	87	95	47	36	37	30	1996	46.0	...
Gambia	49.5	48.5	50.5	82	95	77	53	72	46	1997	3.5	12.5
Ghana	49.8	49.2	50.3	79	93	68	58	74	46	2002	9.0	64.0
Guinea	44.8	43.9	45.6	51	78	38	13	25	6	2000	9.4	43.2
Guinea Bissau	40.5	39.6	41.5	59	79	49	34	57	23	2003	59.8	73.1
Kenya	44.4	44.1	44.8	62	89	46	48	56	43	2003	14.7	122.4
Lesotho	31.4	29.6	33.2	76	88	74	37	61	32	1995	5.4	60.1
Liberia	35.3	33.6	37.0	62	72	52	26	49	7	1997	2.3	5.9
Libya	63.7	62.3	65.0	72	72	68	97	97	96	1999	128.0	355.5
Madagascar	48.6	47.3	49.9	45	75	34	33	49	27	2001	8.0	18.8
Malawi	34.9	35.0	34.8	67	96	62	46	66	42	2003	1.1	25.5
Mali	37.9	37.5	38.3	48	76	35	45	59	38	2000	4.4	12.1

Table 16 - **Sanitary Conditions** *(cont.)*

	Healthy life expectancy at birth (years)			Water supply coverage (%)			Sanitation coverage (%)			Health personnel (per 100 000)		
	Total	Male	Female	Total	Urban	Rural	Total	Urban	Rural	Survey year	Physicians	Nurses
		2002			2002			2002				
Mauritania	44.5	42.8	46.3	56	63	45	42	64	9	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**	**80**	**99**	**56**	**61**	**83**	**31**	**2001**	**48.3**	**99.5**
Mozambique	**36.9**	**36.3**	**37.5**	**42**	**76**	**24**	**27**	**51**	**14**	**1997**	**29.5**	**20.5**
Namibia	43.3	42.9	43.8	80	98	72	30	66	14	1997	29.5	168.0
Niger	**35.5**	**35.8**	**35.2**	**46**	**80**	**36**	**12**	**43**	**4**	**2002**	**3.3**	**23.1**
Nigeria	**41.5**	**41.3**	**41.8**	**60**	**72**	**49**	**38**	**48**	**30**	**2000**	**26.9**	**66.1**
Rwanda	**38.3**	**36.4**	**40.2**	**73**	**92**	**69**	**41**	**56**	**38**	**2002**	**1.9**	**21.0**
São Tomé and Principe	54.4	54.2	54.7	79	89	73	24	32	20	1999	42.0	127.4
Senegal	**48.0**	**47.1**	**48.9**	**72**	**90**	**54**	**52**	**70**	**34**	**1995**	**7.5**	**22.1**
Seychelles	61.2	57.4	64.9	87	100	75	...	...	100	1996	132.4	467.6
Sierra Leone	28.6	27.2	29.9	57	75	46	39	53	30	1996	7.3	33.0
Somalia	36.8	36.1	37.5	29	32	27	25	47	14	1997	4.0	19.0
South Africa	**44.3**	**43.3**	**45.3**	**87**	**98**	**73**	**67**	**86**	**44**	**2001**	**69.2**	**388.0**
Sudan	48.5	47.2	49.9	69	78	64	34	50	24	2000	15.8	85.0
Swaziland	34.2	33.2	35.2	52	87	42	52	78	44	2000	17.6	320.3
Tanzania	**40.4**	**40.0**	**40.7**	**51**	**80**	**36**	**34**	**71**	**15**	**2002**	**2.3**	**36.6**
Togo	44.6	43.5	45.7	82	94	60	80	90	62	2001	5.6	16.7
Tunisia	**62.5**	**61.3**	**63.6**	**73**	**92**	**62**	**46**	**54**	**41**	**2003**	**82.8**	**303.2**
Uganda	**42.7**	**41.7**	**43.7**	**56**	**87**	**52**	**41**	**53**	**39**	**2002**	**4.7**	**5.4**
Zambia	**34.9**	**34.8**	**35.0**	**55**	**90**	**36**	**45**	**68**	**32**	**1995**	**6.9**	**113.1**
Zimbabwe	33.6	33.8	33.3	83	100	74	57	69	51	2002	5.7	54.2
Africa	**44.6**	**43.8**	**45.3**	**64**	**85**	**50**	**43**	**63**	**30**	...	...	...

Sources: Healthy life expectancy at birth: WHO, 2004, *The World Health Report 2004.*
Water supply coverage and sanitation coverage: WHO and UNICEF, Joint Monitoring Programme online (http://www.wssinfo.org/en/sanquery.html) 2004.
Health personnel: WHO, *Global Atlas of the Health Workforce* (last update 24 October 2004).

Table 17 - Major Diseases

	Total population (000) 2005	People living with HIV/AIDS (000)	HIV/AIDS Adult prevalence (%) end-2003	AIDS orphans cumulative (000)	Malaria notified cases: Survey year	Malaria notified cases: Notified cases	Tuberculosis notified cases 2003	Measles incidence 2004	Vaccination coverage (%) MCV 2003	Vaccination coverage (%) DTP3 2004
Algeria	32 854	9	0.1	...	1997	197	19 730	...	84	...
Angola	15 941	240	3.9	110	2002	1 409 328	36 079	20	62	59
Benin	8 439	68	1.9	34	1997	670 857	2 932	262	83	83
Botswana	1 765	350	37.3	120	1995	17 599	9 862	1	90	89
Burkina Faso	13 228	300	4.2	260	1995	501 020	2 620	77	76	88
Burundi	7 548	250	6.0	200	1995	932 794	6 822	2	81	83
Cameroon	16 322	560	7.4	240	1997	645 309	15 964	358	61	73
Cape Verde	507	...	...	...	1997	20	205	0	76	75
Central African Republic	4 038	260	13.5	110	2003	95 644	3 932	1 233	35	50
Chad	9 749	200	4.8	96	1995	343 186	4 679	10 324	61	50
Comoros	798	...	...	...	1996	15 509	...	0	63	76
Congo	3 999	90	4.9	97	1997	9 491	7 782	3 524	50	67
Congo Dem. Rep.	57 549	1 100	4.2	770	2003	4 386 638	84 687	44 934	54	64
Côte d'Ivoire	18 154	570	7.0	310	1997	983 089	17 782	4 010	56	50
Djibouti	793	9	2.9	5	1997	4 314	3 231	...	66	...
Egypt	74 033	12	<0.1	...	1997	11	11 490	80	98	97
Equatorial Guinea	504	...	...	...	1995	12 530	416	38	36	46
Eritrea	4 401	60	2.7	39	2003	72 023	4 708	24	63	80
Ethiopia	77 431	1 500	4.4	720	2003	565 273	117 600	73	44	66
Gabon	1 384	48	8.1	14	1997	35 842	2 174	63	37	40
Gambia	1 517	7	1.7	2	...	...	1 945	0	90	92
Ghana	22 113	350	3.1	170	2003	3 552 869	11 891	60	80	80
Guinea	9 402	140	3.2	35	1997	802 210	6 570	10	75	69
Guinea Bissau	1 586	...	...	...	...	...	1 647	3 526	61	80
Kenya	34 256	1 200	6.7	650	2002	124 197	91 522	20	72	73
Lesotho	1 795	320	28.9	100	...	...	12 007	31	55	71
Liberia	3 283	100	5.9	36	...	...	1 753	4	53	31
Libya	5 853	10	0.3	...	...	...	1 917	2 771	...	97
Madagascar	18 606	140	1.7	30	...	...	19 309	35 558	86	75
Malawi	12 884	900	14.2	500	2002	2 853 317	25 841	1 116	77	89
Mali	13 518	140	1.9	75	2003	809 428	4 496	172	68	86

Table 17 - Major Diseases (cont.)

	Total population (000)	People living with HIV/AIDS (000)	HIV/AIDS Adult prevalence (%)	AIDS orphans cumulative (000)	Malaria notified cases		Tuberculosis notified cases	Measles incidence	Vaccination coverage (%) MCV	Vaccination coverage (%) DTP3
	2005		end-2003		Survey year	Notified cases	2003	2004	2003	2004
Mauritania	3 069	10	0.6	2	...	...	3 067	5 039	71	70
Mauritius	1 245	...	...	...	1997	65	...	28	94	98
Morocco	31 478	15	0.1	...	2000	59	26 789	6 399	90	97
Mozambique	19 792	1 300	12.2	470	2003	5 087 865	28 602	9 396	96	65
Namibia	2 031	210	21.3	57	2003	444 081	11 776	4	70	81
Niger	13 957	70	1.2	24	1997	978 855	7 078	63 056	64	62
Nigeria	131 530	3 600	5.4	1 800	2003	2 608 479	44 184	31 521	...	38
Rwanda	9 038	250	5.1	160	1997	1 210 775	5 895	386	90	89
São Tomé and Principe	157	...	...	...	...	...	...	0	87	101
Senegal	11 658	44	0.8	17	1995	628 773	9 380	39	60	87
Seychelles	81	...	...	...	...	...	...	0	100	100
Sierra Leone	5 525	...	...	...	...	...	5 289	586	73	61
Somalia	8 228	...	...	...	2003	23 349	9 278	8 257	40	30
South Africa	47 432	5 300	21.5	1 100	1996	29 160	227 320	...	83	...
Sudan	36 233	400	2.4	...	2003	3 084 320	25 095	9 562	70	79
Swaziland	1 032	220	38.8	65	...	...	7 749	0	94	83
Tanzania	38 329	1 600	8.8	980	2003	10 712 526	61 579	1 419	97	95
Togo	6 145	110	4.1	54	...	...	1 766	61	72	71
Tunisia	10 102	1	<0.1	...	...	...	1 965	1	90	97
Uganda	28 816	530	4.1	940	2003	12 343 411	53 932	141	83	87
Zambia	11 668	920	16.6	630	2001	2 010 185	53 183	35	78	94
Zimbabwe	13 010	1 800	24.6	980	1995	330 002	53 183	31	80	85
Africa	904 804	28 650	7.6*	12 002	...	...	1 168 703	244 252	72	75

Notes: DTP: Diphtheria, tetanus toxoids and pertussis antigen. MCV: Measles Contaning Vaccine.
* Sub-Saharan Africa only.

Sources: UNAIDS, *2004 Report on the global AIDS epidemic*; Malaria notified cases: WHO, Roll Back Malaria (RBM) (for recent updates *World Malaria report 2005*); Tuberculosis notified cases: WHO, 2005, Global Tuberculosis Database; Vaccination coverage and Measles incidence: *WHO Vaccine Immunization and Biological*, 2005 Global Summary.

Table 18 - Basic Education Indicators

	Estimated adult illiteracy rate, 2005 (%) (people over 15)			Estimated youth illiteracy rate, 2005 (%) (people between 15 and 24)			Public expenditure on education 1999-2004 (% of GNI)
	Total	Male	Female	Total	Male	Female	
Algeria	**27.9**	**19.4**	**36.6**	**8.0**	**4.8**	**11.3**	**5.8**
Angola	**...**	**...**	**...**	**...**	**...**	**...**	**2.8**
Benin	**56.8**	**41.2**	**71.6**	**41.0**	**23.9**	**57.9**	**3.3**
Botswana	**18.6**	**21.4**	**15.9**	**9.6**	**13.1**	**6.1**	**2.1**
Burkina Faso	**71.5**	**61.2**	**81.7**	**59.7**	**49.0**	**70.7**	**...**
Burundi	46.1	40.0	51.8	30.6	30.8	30.3	3.6
Cameroon	**23.1**	**16.8**	**29.2**	**7.2**	**6.2**	**8.3**	**5.4**
Cape Verde	22.0	13.4	29.2	9.3	7.0	11.6	4.4
Central African Republic	46.1	34.4	56.8	26.0	19.8	32.0	1.9
Chad	**49.3**	**41.2**	**57.2**	**25.6**	**20.8**	**30.3**	**2.0**
Comoros	43.2	36.1	50.3	40.5	33.9	47.2	3.8
Congo	**14.2**	**8.8**	**19.2**	**1.5**	**1.1**	**2.0**	**3.2**
Congo Dem. Rep.	**31.9**	**21.8**	**41.7**	**13.6**	**8.7**	**18.5**	**4.6**
Côte d'Ivoire	**46.3**	**36.3**	**56.8**	**33.7**	**26.0**	**41.3**	**4.6**
Djibouti	29.7	20.1	38.6	12.1	9.0	15.1	3.5
Egypt	**40.8**	**30.6**	**51.1**	**26.5**	**21.2**	**32.1**	**...**
Equatorial Guinea	12.9	5.9	19.5	1.9	1.0	2.9	0.5
Eritrea	39.5	28.5	50.3	25.5	16.7	34.4	2.7
Ethiopia	**54.8**	**47.7**	**62.0**	**39.0**	**34.2**	**43.7**	**4.8**
Gabon	**...**	**...**	**...**	...	...	...	**3.9**
Gambia	57.5	50.1	64.6	35.6	28.2	42.9	2.7
Ghana	**23.0**	**15.8**	**30.0**	**6.2**	**4.8**	**7.6**	**4.1**
Guinea	...	...	...	...	...	...	1.9
Guinea Bissau	55.2	40.0	69.8	35.0	22.9	47.1	2.1
Kenya	**13.1**	**8.3**	**17.9**	**3.3**	**3.0**	**3.6**	**6.2**
Lesotho	14.3	24.1	4.9	8.0	14.9	1.0	10.0
Liberia	41.1	24.8	57.3	26.0	11.6	40.3	...
Libya	15.9	6.6	25.8	2.3	0.2	4.5	2.7
Madagascar	**29.5**	**23.3**	**35.5**	**16.6**	**14.0**	**19.3**	**2.5**
Malawi	**35.7**	**22.9**	**48.1**	**25.5**	**16.8**	**34.3**	**4.1**
Mali	**70.5**	**60.0**	**80.6**	**59.2**	**48.2**	**70.2**	**2.8**

Table 18 - **Basic Education Indicators** *(cont.)*

	Estimated adult illiteracy rate, 2005 (%) (people over 15)			Estimated youth illiteracy rate, 2005 (%) (people between 15 and 24)			Public expenditure on education 1999-2004 (% of GNI)
	Total	Male	Female	Total	Male	Female	
Mauritania	57.4	47.5	67.0	49.3	42.1	56.5	3.6
Mauritius	**13.6**	**11.0**	**16.2**	**5.1**	**5.8**	**4.3**	**3.3**
Morocco	**46.5**	**34.5**	**58.5**	**27.2**	**20.5**	**34.0**	**5.1**
Mozambique	**49.6**	**34.3**	**64.4**	**33.7**	**21.2**	**46.2**	**2.4**
Namibia	14.6	14.5	14.7	6.8	8.4	5.1	7.9
Niger	**81.3**	**72.9**	**89.3**	**73.3**	**63.5**	**83.1**	**2.3**
Nigeria	**29.2**	**22.4**	**35.8**	**8.9**	**7.6**	**10.3**	**...**
Rwanda	**27.3**	**22.1**	**32.3**	**12.8**	**12.1**	**13.4**	**2.8**
São Tomé and Principe	...	...	...	...	...	...	...
Senegal	**57.9**	**48.3**	**67.2**	**43.8**	**35.9**	**51.7**	**3.2**
Seychelles	...	...	...	...	...	...	7.5
Sierra Leone	...	...	...	...	...	...	3.8
Somalia	...	...	...	...	...	...	...
South Africa	**12.9**	**12.3**	**13.5**	**7.5**	**7.5**	**7.5**	**5.7**
Sudan	36.9	26.8	46.8	18.1	14.5	21.8	3.8
Swaziland	17.1	16.3	17.9	7.5	8.4	6.7	5.5
Tanzania	**19.9**	**12.9**	**26.7**	**6.9**	**5.4**	**8.4**	**2.2**
Togo	36.5	22.6	50.1	19.6	10.0	29.1	4.8
Tunisia	**23.8**	**14.4**	**33.3**	**4.3**	**1.4**	**7.3**	**6.8**
Uganda	**28.4**	**19.4**	**37.3**	**17.7**	**12.3**	**23.0**	**2.5**
Zambia	**17.8**	**12.2**	**23.1**	**9.4**	**7.6**	**11.2**	**1.9**
Zimbabwe	8.1	4.8	11.3	1.8	0.7	2.9	4.7
Africa	**35.0**	**26.9**	**42.9**	**20.2**	**16.1**	**24.2**	**4.8**

Sources: UNESCO Institute for Statistics (UIS) Database, Domestic Authorities, Africa Live Database and authors' calculations.

Table 19 - School Enrolment

	Unesco primary, 2002/2003							Unesco secondary, 2002/2003			
	Gross enrolment ratio			Net enrolment ratio			Pupil/ teacher ratio	Gross enrolment ratio			Pupil/ teacher ratio
	Total	Male	Female	Total	Male	Female		Total	Male	Female	
Algeria	109	113	104	95	96	94	28	80*	77	83	21**
Angola	...	...	...	...	...	...	...	...	...	16.8	...
Benin	109	127	92	...	...	...	62	28	38*	17	...
Botswana	103**	103**	103**	81**	79**	83**	27**	73**	70**	75**	16**
Burkina Faso	46	53	39	36	42	31	45	11	14	9	31
Burundi	77	86	69	57	62	52	50	11	13	9	19
Cameroon	108	116	99	...	...	...	57	31	34	28	21
Cape Verde	121	124	118	99	100	98	28	70	67	73	24
Central African Republic	66	78	53	...	...	...	...	...	...	...	...
Chad	76	92	60	61**	72**	49**	69	16**	25**	8**	...
Comoros	90**	98**	81**	...	...	...	37**	31	34	28	11
Congo	80	83	77	54	55	53	65	...	...	26.6	...
Congo Dem. Rep.	...	...	...	...	...	...	...	...	...	...	...
Côte d'Ivoire	78*	86*	69*	61*	67*	54*	42*	...	...	18	...
Djibouti	40**	46**	35**	36	40	32	...	20**	24**	15**	...
Egypt	97**	100**	95**	91**	93**	90**	22**	85**	88**	82**	17**
Equatorial Guinea	...	...	...	...	...	...	...	...	...	21.6	...
Eritrea	63	70	57	45	49	42	47	28	34	22	54
Ethiopia	66	76	55	47	52	42	65**	20	25	14	47**
Gabon	132	133	132	...	...	...	36	...	...	...	...
Gambia	85	86**	84**	79**	79**	78**	38**	34**	41**	28**	25**
Ghana	79	81	77	63	64	62	31	39**	43**	36**	18**
Guinea	81	92	71	65	73	58	45	24**	33**	15**	...
Guinea Bissau	...	...	...	...	...	...	...	...	...	...	...
Kenya	92	95	90	66	66	66	34**	33	34	32**	...
Lesotho	126	125	127	86	83	89	47	35	30	39	23
Liberia	...	...	...	...	...	...	...	...	...	...	...
Libya	114**	114**	114**	...	...	...	...	105**	102**	108**	...
Madagascar	120	122	117	79	78	79	52	...	...	...	...
Malawi	140	143	137	...	...	...	70**	33**	37**	29**	46**
Mali	58	66	50	44	50	39	57	20	25	14	10

Table 19 - School Enrolment (cont.)

	Unesco primary, 2002/2003							Unesco secondary, 2002/2003			
	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	88	89	87	68	68	67	41	23	25	20	26
Mauritius	**104**	**103**	**104**	**97**	**96**	**98**	**25**	**81**	**81**	**81**	**19**
Morocco	**110**	**115**	**104**	**90**	**92**	**87**	**28**	**45**	**49**	**41**	**18****
Mozambique	**103**	**114**	**93**	**55**	**58**	**53**	**67**	**16**	**19**	**13**	**...**
Namibia	105	105	106	78	76	81	28	62	59	66	24
Niger	**44**	**51**	**36**	**38**	**45**	**31**	**42**	**7**	**8**	**6**	**30**
Nigeria	**119**	**132**	**107**	**67****	**74****	**60****	**42**	**36**	**40**	**32**	**35**
Rwanda	**122**	**122**	**122**	**87**	**85**	**88**	**60**	**16**	**18**	**15**	**27**
São Tomé and Principe	...	...	...	...	...	...	...	...	...	35.9	...
Senegal	**80**	**83**	**77**	**69**	**71**	**66**	**49****	**19**	**23**	**16**	**...**
Seychelles	114	115	114	100	100	99	14	111	111	111	14
Sierra Leone	...	...	...	...	...	...	...	...	...	...	...
Somalia	...	...	...	...	...	...	...	...	...	...	...
South Africa	**106**	**108**	**104**	**89**	**89**	**89**	**34**	**89**	**86**	**90.2**	**30**
Sudan	60	64	56	...	...	...	29**	35	38	32	26**
Swaziland	98	102	94	75	75	75	31	45	45	46	16**
Tanzania	**84**	**86**	**83**	**69**	**69**	**68**	**53**	**...**	**...**	**...**	**...**
Togo	121	132	110	91	99	83	35	...	...	...	...
Tunisia	**111**	**113**	**109**	**97**	**97**	**97**	**22**	**78**	**75**	**81**	**...**
Uganda	**141**	**142**	**139**	**...**	**...**	**...**	**53**	**20****	**22****	**18****	**...**
Zambia	**82**	**85**	**79**	**68**	**69**	**68**	**43**	**28**	**30**	**25**	**34**
Zimbabwe	94	95	93	80	80	80	39	40	43	41	26
Africa	**92**	**98**	**85**	**67**	**70**	**63**	**42.3**	**37**	**40**	**34**	**29.3**

Note: * National estimation.
** UNESCO Institute for Statistics (UIS) estimation.

Sources: UNESCO Institute for Statistics (UIS) Database estimation, September 2005.

Table 20 - **Corruption Perception Index**

	1999		2000		2001		2002		2003		2004		2005	
	Index	Country Rank / 99	Index	Country Rank / 90	Index	Country Rank / 91	Index	Country Rank / 102	Index	Country Rank / 133	Index	Country Rank / 145	Index	Country Rank / 158
Algeria	...	...	...	...	...	...	...	...	2.6	88	2.7	97	2.8	97
Angola	...	...	1.7	85	...	...	1.7	98	1.8	124	2	133	2	151
Benin	...	...	...	...	...	...	...	...	...	...	3.2	77	2.9	88
Botswana	6.1	24	6	26	6	26	6.4	24	5.7	30	6	31	5.9	32
Burkina Faso	...	...	3	65	...	...	...	...	...	...	...	...	3.4	70
Burundi	...	...	...	...	...	...	...	...	...	...	...	...	2.3	130
Cameroon	1.5	99	2	84	2	84	2.2	89	1.8	124	2.1	129	2.2	137
Cape Verde	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Central African Republic	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Chad	...	...	...	...	...	...	...	...	...	...	1.7	142	1.7	158
Comoros	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Congo	...	...	...	...	...	...	...	...	2.2	113	2.3	114	2.3	130
Congo, Dem. Rep.	...	...	...	...	...	...	...	...	...	...	2	133	2.1	144
Côte d'Ivoire	2.6	75	2.7	71	2.4	77	2.7	71	2.1	118	2	133	1.9	152
Djibouti	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Egypt	3.3	63	3.1	63	3.6	54	3.4	62	3.3	70	3.2	77	3.4	70
Equatorial Guinea	...	...	...	...	...	...	...	...	...	...	...	...	1.9	152
Eritrea	...	...	...	...	...	...	...	...	...	...	2.6	102	2.6	107
Ethiopia	...	...	3.2	60	...	...	3.5	59	2.5	92	2.3	114	2.2	137
Gabon	...	...	...	...	...	...	...	...	...	...	3.3	74	2.9	88
Gambia	...	...	...	...	...	...	...	...	2.5	92	2.8	90	2.7	103
Ghana	3.3	63	3.5	52	3.4	59	3.9	50	3.3	70	3.6	64	3.5	65
Guinea	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Guinea Bissau	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Kenya	2	90	2.1	82	2	84	1.9	96	1.9	122	2.1	129	2.1	144
Lesotho	...	...	...	...	...	...	...	...	...	...	...	...	3.4	70
Liberia	...	...	...	...	...	...	...	...	...	...	...	...	2.2	137
Libya	...	...	...	...	...	...	...	...	2.1	118	2.5	108	2.5	117
Madagascar	...	...	...	...	...	...	1.7	98	2.6	88	3.1	82	2.8	97
Malawi	4.1	45	4.1	43	3.2	61	2.9	68	2.8	83	2.8	90	2.8	97
Mali	...	...	...	...	...	...	...	...	3	78	3.2	77	2.9	88

Table 20 - **Corruption Perception Index** *(cont.)*

	1999 Index	1999 Country Rank / 99	2000 Index	2000 Country Rank / 90	2001 Index	2001 Country Rank / 91	2002 Index	2002 Country Rank / 102	2003 Index	2003 Country Rank / 133	2004 Index	2004 Country Rank / 145	2005 Index	2005 Country Rank / 158
Mauritania	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Mauritius	**4.9**	**36**	**4.7**	**37**	**4.5**	**40**	**4.5**	**40**	**4.4**	**48**	**4.1**	**54**	**4.2**	**51**
Morocco	**4.1**	**45**	**4.7**	**37**	**...**	**...**	**3.7**	**52**	**3.3**	**70**	**3.2**	**77**	**3.2**	**78**
Mozambique	**3.5**	**56**	**2.2**	**81**	**...**	**...**	**...**	**...**	**2.7**	**86**	**2.8**	**90**	**2.8**	**97**
Namibia	5.3	29	5.4	30	5.4	30	5.7	28	4.7	41	4.1	54	4.3	47
Niger	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**2.2**	**122**	**2.4**	**126**
Nigeria	**1.6**	**98**	**1.2**	**90**	**1**	**90**	**1.6**	**101**	**1.4**	**132**	**1.6**	**144**	**1.9**	**152**
Rwanda	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**3.1**	**83**
São Tomé and Principe	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Senegal	**3.4**	**58**	**3.5**	**52**	**2.9**	**65**	**3.1**	**66**	**3.2**	**76**	**3**	**85**	**3.2**	**78**
Seychelles	...	...	...	...	...	...	...	...	...	...	4.4	48	4	55
Sierra Leone	...	...	...	...	...	...	...	...	2.2	113	2.3	114	2.4	126
Somalia	...	...	...	...	...	...	...	...	...	...	...	...	2.1	144
South Africa	**5**	**34**	**5**	**34**	**4.8**	**38**	**4.8**	**36**	**4.4**	**48**	**4.6**	**44**	**4.5**	**46**
Sudan	...	...	...	...	...	...	...	...	2.3	106	2.2	122	2.1	144
Swaziland	...	...	...	...	...	...	...	...	...	...	...	...	2.7	103
Tanzania	**1.9**	**93**	**2.5**	**76**	**2.2**	**82**	**2.7**	**71**	**2.5**	**92**	**2.8**	**90**	**2.9**	**88**
Togo	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Tunisia	**5**	**34**	**5.2**	**32**	**5.3**	**31**	**4.8**	**36**	**4.9**	**39**	**5**	**39**	**4.9**	**43**
Uganda	**2.2**	**87**	**2.3**	**80**	**1.9**	**88**	**2.1**	**93**	**2.2**	**113**	**2.6**	**102**	**2.5**	**117**
Zambia	**3.5**	**56**	**3.4**	**57**	**2.6**	**75**	**2.6**	**77**	**2.5**	**92**	**2.6**	**102**	**2.6**	**107**
Zimbabwe	4.1	45	3	65	2.9	65	2.7	71	2.3	106	2.3	114	2.6	107

Source: Transparency International.

Table 21 - **Political Troubles**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Algeria	121.4	124.2	126.6	141.6	120.3	142.5	64.8	14.5	61.4	23.4
Angola	...	...	...	...	...	...	...	...	54.6	2.9
Benin	...	...	...	...	...	...	...	...	2.7	0.0
Botswana	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Burkina Faso	0.0	3.2	1.1	5.6	9.5	2.5	2.5	0.1	4.1	0.8
Cameroon	23.7	54.7	1.3	1.5	2.2	1.0	0.6	0.8	2.0	3.3
Chad	4.4	5.6	2.2	20.2	26.7	16.7	10.5	2.9	3.8	11.2
Congo	...	...	...	...	...	...	...	...	2.0	1.9
Congo, Dem. Rep.	...	...	...	...	...	...	...	...	21.7	21.9
Côte d'Ivoire	16.4	3.8	3.4	...	28.1	2.9	13.7	18.8	25.2	20.6
Egypt	22.9	43.6	0.0	...	7.8	7.2	2.0	5.4	8.5	13.7
Equatorial Guinea	1.9	0.0	1.9	...	0.0	0.0	0.0	1.0	1.0	0.0
Ethiopia	48.5	12.2	1.6	...	5.7	8.4	42.6	15.2	25.9	13.2
Gabon	10.0	1.0	2.5	...	0.0	0.0	1.5	0.0	0.5	6.6
Ghana	4.9	0.0	0.3	...	1.9	3.8	3.8	1.1	1.9	0.0
Kenya	14.8	25.5	34.1	...	0.0	11.6	1.9	6.8	4.5	12.4
Madagascar	...	...	...	...	...	...	...	...	6.7	8.8
Mali	3.4	13.7	1.2	...	0.0	0.0	0.0	0.6	0.6	2.5
Mauritius	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	1.9	1.9
Malawi	...	...	...	...	...	...	...	...	...	5.7
Morocco	12.2	1.6	2.2	...	0.5	0.0	0.0	0.0	3.5	2.0
Mozambique	37.7	0.0	0.0	...	6.8	0.0	0.0	4.5	3.8	1.0
Namibia	3.5	0.0	0.0	...	3.8	0.0	0.0	0.0	0.0	0.0
Niger	...	...	...	...	...	...	...	...	5.5	3.5
Nigeria	30.2	51.3	10.2	...	29.2	39.7	19.4	10.4	31.6	4.0
Rwanda	...	...	...	...	...	...	...	...	0.0	0.0
Senegal	0.3	19.6	2.7	...	5.7	5.9	7.7	6.7	9.1	4.7
South Africa	85.0	40.8	20.3	...	18.9	2.2	3.3	1.2	11.3	3.1
Tanzania	4.7	1.9	0.9	...	0.0	6.0	0.0	0.5	0.3	5.3
Tunisia	0.0	0.0	0.5	...	0.5	0.0	2.9	2.3	0.0	2.9
Uganda	81.3	15.3	10.5	...	0.0	23.9	14.3	17.2	41.1	8.8
Zambia	4.8	4.6	4.9	...	0.6	17.6	1.1	5.7	2.0	2.0
Zimbabwe	9.6	9.7	11.3	...	16.8	12.6	16.5	8.8	3.4	4.5

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	2004	2005
Algeria	1.3	3.6	0.8	1.9	0.7	0.0	3.0	2.2	3.8	1.9
Angola	…	…	…	…	…	…	…	…	1.2	0.7
Benin	…	…	…	…	…	…	…	…	0.9	0.2
Botswana	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Burkina Faso	0.4	0.4	0.0	0.0	1.1	0.0	0.7	0.1	1.1	0.0
Cameroon	0.7	2.0	0.8	0.0	0.1	0.8	0.0	0.7	2.4	1.0
Chad	4.5	4.0	0.0	1.8	0.5	1.1	2.7	3.2	0.2	0.4
Congo	…	…	…	…	…	…	…	…	0.8	1.1
Congo, Dem. Rep.	…	…	…	…	…	…	…	…	0.4	1.7
Côte d'Ivoire	1.5	2.1	1.0	1.1	2.6	3.9	1.8	6.9	6.0	3.6
Egypt	0.1	0.0	0.0	1.4	1.9	0.2	0.6	2.6	2.5	1.8
Equatorial Guinea	0.0	2.6	0.0	0.8	0.7	0.5	1.8	1.5	0.4	0.0
Ethiopia	0.1	0.1	0.8	0.0	0.1	1.6	0.0	0.0	0.4	1.9
Gabon	0.0	0.5	0.5	0.0	0.1	0.0	1.1	0.4	0.8	0.8
Ghana	0.9	0.1	0.0	0.0	1.1	0.2	0.0	0.0	0.4	0.0
Kenya	0.9	0.7	0.6	0.0	0.0	1.1	0.0	2.7	0.7	0.0
Madagascar	…	…	…	…	…	…	…	…	2.9	0.2
Mali	1.4	2.3	0.9	1.7	1.4	0.1	1.3	0.0	0.2	0.0
Mauritius	0.0	0.1	0.0	0.0	0.0	0.0	0.0	1.0	0.1	0.1
Malawi	…	…	…	…	…	…	…	…	…	0.0
Morocco	0.9	0.6	0.6	0.0	2.1	0.0	0.9	1.0	3.0	1.2
Mozambique	0.1	0.0	0.0	0.0	0.7	1.5	0.7	0.1	0.1	0.0
Namibia	0.0	0.4	0.0	0.0	0.0	1.1	0.0	0.5	0.0	0.2
Niger	…	…	…	…	…	…	…	…	0.0	1.2
Nigeria	1.1	1.8	6.6	3.4	0.3	0.0	0.9	0.6	1.2	0.3
Rwanda	…	…	…	…	…	…	…	…	0.6	1.5
Senegal	0.5	0.7	0.0	2.4	1.1	1.6	0.1	0.0	2.6	1.2
South Africa	3.1	2.3	0.8	2.0	0.9	2.2	0.9	0.5	0.6	0.8
Tanzania	0.2	0.1	0.1	1.6	0.0	1.6	0.7	0.0	0.5	0.0
Tunisia	1.4	0.7	0.1	2.8	0.7	1.8	3.0	0.7	0.0	1.1
Uganda	0.0	0.4	0.4	0.6	0.7	0.1	0.4	0.9	0.6	0.6
Zambia	1.4	0.0	1.7	0.7	0.0	1.2	1.3	1.6	0.5	0.2
Zimbabwe	0.1	0.1	0.0	0.2	1.2	0.6	1.5	2.5	0.5	0.1

Note: See note on methodology.
Source: Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*

Table 23 - Hardening of the Regime

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Algeria	11.9	6.5	4.3	2.5	0.3	8.1	15.0	4.5	8.9	0.0
Angola	...	...	...	...	...	...	...	...	5.7	0.3
Benin	...	...	...	...	...	...	...	...	1.2	0.3
Botswana	0.3	0.5	0.0	0.6	0.0	0.0	0.0	0.0	1.0	0.3
Burkina Faso	0.8	1.9	0.6	4.5	1.6	1.1	2.7	2.4	2.8	0.5
Cameroon	7.4	5.9	1.9	1.6	1.0	3.3	0.9	2.2	2.5	0.0
Chad	2.9	1.0	1.4	0.0	1.1	2.6	1.7	0.0	0.9	6.9
Congo	...	...	...	...	...	...	...	...	1.4	1.0
Congo, Dem. Rep.	...	...	...	...	...	...	...	...	4.9	10.4
Côte d'Ivoire	2.9	2.5	0.7	10.2	7.8	1.4	3.2	7.2	9.6	7.2
Egypt	9.4	6.8	5.5	2.0	7.7	3.9	11.5	4.8	4.0	3.2
Equatorial Guinea	0.0	1.2	5.0	0.0	0.0	0.9	5.7	0.5	8.1	0.0
Ethiopia	7.5	3.9	2.4	0.0	0.7	3.6	8.4	1.2	1.3	12.4
Gabon	1.0	5.1	0.7	2.1	0.4	0.0	0.5	1.3	3.6	7.8
Ghana	2.2	0.8	2.5	2.4	0.0	0.8	1.3	0.0	0.4	0.0
Kenya	3.9	11.0	3.6	0.0	0.0	0.7	1.2	2.0	2.3	2.6
Madagascar	...	...	...	...	...	...	...	...	2.8	1.1
Mali	0.4	5.1	0.0	0.4	1.2	1.1	0.3	1.0	0.3	0.0
Mauritius	0.3	0.0	0.0	0.4	0.0	0.0	0.0	2.2	0.4	0.4
Malawi	...	...	...	...	...	...	...	...	...	3.4
Morocco	5.0	3.7	1.4	1.2	3.4	2.9	2.5	3.7	5.6	1.9
Mozambique	0.3	0.9	2.3	1.1	3.7	1.2	0.0	0.4	1.6	0.0
Namibia	0.0	0.3	0.0	1.2	1.6	0.3	0.3	0.8	0.3	0.0
Niger	...	...	...	...	...	...	...	...	1.6	3.1
Nigeria	125.5	9.1	5.8	4.2	4.5	2.8	2.4	3.5	12.4	2.6
Rwanda	...	...	...	...	...	...	...	...	4.0	0.0
Senegal	1.7	3.3	2.7	0.3	0.0	1.7	1.1	1.4	0.9	2.6
South Africa	18.6	14.3	6.1	4.5	1.9	1.2	1.8	1.7	4.0	4.5
Tanzania	1.3	0.4	0.5	0.0	0.3	0.4	0.0	0.5	0.0	1.5
Tunisia	3.9	1.5	1.5	2.4	1.4	3.3	2.9	1.6	6.4	2.7
Uganda	3.1	0.0	0.7	0.9	0.0	5.8	1.3	3.8	12.3	2.9
Zambia	5.5	8.5	3.9	3.0	1.1	4.7	5.2	1.5	2.4	1.2
Zimbabwe	4.0	3.7	7.7	5.1	4.8	12.5	17.5	15.5	16.3	13.4

Note: See note on methodology.
Source: Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*