

Highlights of the African Economic Outlook 2004/2005

The most favourable economic performance in many years for Africa. Economic activity rose by over 5 per cent in 2004, and while some countries continue to face serious problems – including the humanitarian catastrophe in the Darfur region of Sudan, the economic collapse in Zimbabwe, and conflicts in Côte d'Ivoire and some parts of the Democratic Republic of Congo – prospects for much of Africa are more favourable than they have been for many years. Underlying this pickup in growth are: global expansion, notably through higher demand and higher prices for commodities; more aid to Africa, headed by debt relief and emergency assistance; and improving macroeconomic stability. Growth has been boosted by new oil fields in Southern and Central Africa, a recovery of agricultural production following the drought that affected some Eastern, Central, and Southern African countries in 2003, and some improvements in the security situation. The locust infestation that affected West and North African countries in 2004 has had a lower than initially expected impact. Inflation has reached historical lows despite increasing oil prices. Trade balances and public finances have improved in many countries, with the largest gains for exporters of oil and metal ores.

Positive, though timid developments registered in aid and trade have also supported economic activity on the continent. Aid levels have increased and Africa is the continent that has benefited the most, mainly in the form of debt relief and emergency assistance. The NEPAD, the 2002 Monterrey consensus on financing for development, and the Heavily Indebted Poor Country (HIPC) initiative – which eased external debt burdens – have focused development aid on Africa. Nonetheless, there is not enough to help most countries attain the Millennium Development Goals (MDGs) by 2015. Only 6 African countries – most in North Africa – are likely to halve the share of the population living on under a dollar a day.

2005 opened with new initiatives to provide increased and more effective aid. The *Outlook* assesses these and reviews framework agreements reached in the Doha Round of multilateral trade talks. It also considers the implications of the ending of the Multi Fibre Arrangement for textile-exporting countries in Africa (including North African countries, Mauritius and Madagascar), especially potential competition from China.

More democracy but not less corruption. **Reduced conflict has fostered democratic practices in many countries**, but corruption is tenacious almost everywhere. The focus on good governance has intensified. In this context, the NEPAD's African Peer Review Mechanism is expected to provide a candid assessment of the situation in African countries and foster progress in this area.

Focus on fostering private-sector development. More needs to be done to ensure an environment conducive to private-sector development and the emergence of a robust fabric of Small and Medium Enterprises (SMEs). **African SMEs – the “missing middle” between very large, often multinational firms and the informal sector – have suffered from adverse business environments.** This year's AEO sheds light on obstacles to their development, focusing on access to external finance. To help SMEs emerge and grow to their efficient size will require sustained efforts and a multi-pronged approach including a better investment climate, improved capacity to cope with banks' requirements, and more diverse sources of financing from financial institutions and the existing large enterprises.