OECD MULTILINGUAL SUMMARIES

African Economic Outlook 2005/2006

Summary in English

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.

This 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, the 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.